MARKET FOCUS
Dublin learns to talk in euro

FINANCIAL TIMES

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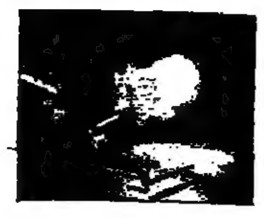

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Microsoft's cable moves
'We are ready to talk to any company anywhere'
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The FT 500
The annual ranking of the world's top companies
Separate section

The FT at Davos

Today, world leaders from government, business and academe gather in Davos, Switzerland for the annual meeting of the World Economic Forum. Starting in tomorrow's FT, a special half page of news and analysis from this agenda-setting summit.

WORLD ECONOMIC FORUM

WORLD NEWS

Kremlin denies rift between Yeltsin and prime minister

The Russian media speculated about Boris Yeltsin's political future as the ailing president instructed his security council to take steps to guarantee stability. The Kremlin was forced to deny any rift between the president and Yevgeny Primakov, the prime minister. **Europe, Page 3**

Beijing stands by currency
Dai Xianglong, China's central bank governor, repeated Beijing's pledge not to devalue its currency, but for the first time made clear that the promise was not without caveats. **Page 14; Editorial Comment, Page 13; China throws lifeline, Page 13; Currencies, Page 25**

Data protection talks slow
The EU and the US made limited progress in talks to resolve a dispute over data protection. David Aaron, US Commerce Secretary, said hurdles still had to be overcome. **Trade, Page 6**

Colombia seeks earthquake aid
The Colombian government is trying to assemble an international aid package to help survivors of the earthquake which hit the country on Monday. **The Americas, Page 7**

UK balance of trade worsens
The UK's balance of trade with the rest of the world has deteriorated further. The deficit in goods widened in November from £1.64bn to £2.18bn ($2.7bn to $3.6bn). **Britain, Page 10**

Slovakia seeks support of London
Slovakia sought UK support in its diplomatic offensive to persuade EU member states to bring it into the first wave of east European countries negotiating membership. **Europe, Page 3**

German workers prepare to strike
Up to 3.4m German metal workers are ready to start industrial action tomorrow unless employers come up with improved wage proposals. **Europe, Page 2**

Norway cuts interest rates
Norway cut interest rates by 0.5 percentage points on deposit and overnight lending rates, to 7.5 per cent and 9.5 per cent respectively. **Europe, Page 3**

Fischer works on EU reform
Germany's foreign minister Joschka Fischer is drawing up an agenda for reforming European Union institutions by 2001. **Europe, Page 2**

Brazil rates increased to 35.5%
Brazil raised interest rates to 35.5 per cent to defend its currency, the Real, which has lost over a third of its value since January 13. **The Americas, Page 7**

Italy aims to balance budget
The Italian government said it would aim to achieve a balanced budget in 2002. **Europe, Page 3**

BUSINESS NEWS

Spanish banks underline potential of €30bn merger

Banco Santander and Banco Central Hispano, the two Spanish banks planning a €30bn ($34.8bn) merger, unveiled robust 1998 results that underscore how their combined weight will create one of the largest financial institutions in the euro-zone. **Companies and Markets, Page 15**

The Financial Supervisory Agency, Japan's banking watchdog, has launched a inspection of Credit Suisse First Boston's operations. It will include an examination of whether CSFB helped clients conceal losses in published accounts through complex securities transactions. **Page 14**

StoraEnso, the paper manufacturer formed by last year's $8.5bn merger of Sweden's Stora and Enso of Finland, warned that 2,000 jobs would be cut. **European companies, Page 19; MoDo shares rise 11 per cent, Page 17**

New Holland of Italy, the world's second biggest tractor maker, warned of further job losses this year after announcing a 30 per cent fall in profits in 1998. **International companies, Page 17**

Container shipping lines accounting for 60 per cent of Asia-Europe shipments plan to increase freight rates on westbound sailings by at least a third this year. **Trade, Page 6**

Matif, the French derivatives exchange, has announced plans to establish its products as benchmarks in the market for government bonds of the 11 euro-zone countries. **International companies, Page 17**

Amazon.com, the internet retailer, is considering launching Advantage, the US service that sells the work of self-published authors and independent musicians, in Europe. **Trade, Page 6; Internet stocks rise, Page 18**

Sony, the Japanese electronics company, revealed depressed third quarter figures and warned of a Y41bn ($363m) operating loss in the fourth quarter. **Companies and Markets, Page 15**

Chemapol Group, the heavily indebted Czech chemicals conglomerate, was declared insolvent yesterday. **International companies, Page 17**

Banco Comercial Português, Portugal's second largest financial group, is to redenominate its capital in euros. **European companies, Page 19**

Lex on Disney
No magic in the kingdom
Page 14

Move to curb Holocaust claims

Bonn and Washington look for overall settlement to stem tide of lawsuits

By Richard Wolffe in Washington and John Authers in New York

The US and German governments are seeking ways to stem the rising tide of class action lawsuits from Holocaust survivors over slave labour and stolen property in Nazi Germany.

The aim is to promote an overall negotiated settlement and avoid a repeat of last year's bitter dispute over Swiss banks' handling of holocaust victims' assets, which strained the bilateral relationship between the US and Switzerland.

Stuart Eizenstat, US under-secretary of state, and Bodo Hombach, chief of staff to Mr Gerhard Schröder, the recently elected German chancellor, met yesterday in Bonn to discuss solutions to the latest legal disputes. Mr Schröder said later: "Compensating people and their dependants who were forced into slave labour under the Nazi regime and who have just claims against German companies is still our moral duty.

"The federal government has taken the necessary initiatives. I am sticking to my goal of finding a quick and fair answer to these questions which have remained open for far too long," he said.

Several separate lawsuits have been filed. A group of German banks is being sued over their role in the enforced "aryanisation" of German businesses, and in handling stolen assets.

Several industrial groups are being sued over their use of slave labourers from concentration camps.

Both the German companies and victims' groups are divided over the best way to proceed.

German banks and industrial companies are keen for the talks to succeed, to avoid negotiating directly with US lawyers and Jewish community groups.

Their proposal is to establish a large umbrella compensation fund, which would be overseen by the German government. But they disagree over whether this should include banks as well as industrial groups.

Their overtures have been rejected by US lawyers for holocaust victims, who seem determined to prove the responsibility of the individual companies.

Michael Hausfeld, a Washington lawyer leading several class action lawsuits against German companies, said: "What we have heard is that the Germans will make a unilateral determination of what they feel responds to the issue, and that is just unacceptable.

"After this length of time, survivors and heirs do not feel it appropriate that the Germans usurp for themselves the right to declare what response and compensation adequately accounts for the offences of those times."

New York judges in the lawsuits against the German banks have appointed Alfonse D'Amato, the former US senator who led the campaign against Swiss banks, over their use of holocaust assets, as a special mediator with the full power of the court, in an attempt to broker an out-of-court settlement.

Mr D'Amato is believed to have asked to meet senior officials of Deutsche Bank and Dresdner Bank, the two largest German banks, next week.

East Timor may gain freedom as Indonesia shifts policy

By Sander Thoenes in Jakarta

East Timor, the former Portuguese colony forcibly occupied by Indonesia in 1975, could soon become independent, Indonesia's foreign minister said yesterday.

"If they want to have their freedom, they are welcome," said Ali Alatas, signalling a radical change in the government's policy on East Timor.

His comments followed a cabinet meeting with President B. J. Habibie and were backed up by Yunus Yosfia, the country's information minister.

The policy shift may have been motivated in part by Indonesia's need to appeal to the international community for more foreign aid following last year's economic near-collapse. Few countries recognised the incorporation of East Timor as Indonesia's 27th province and most condemned the subsequent massacre of a third of its 1m people.

Since the resignation last year of Indonesia's president Suharto, Mr Habibie has sought to defuse pressure over East Timor by proposing increased autonomy and reducing the presence of Indonesian troops there.

Portugal, which still counts East Timor as its colony, welcomed the announcement. But the foreign ministry in Lisbon said it would "seek to clarify, via the United Nations, the exact nature of this statement ... to determine if it is a new Indonesian policy or a new formulation of the same policy."

Timorese leaders were sceptical. "This confirms what we have heard from many sources of that regime, that there is a prevalent point of view in Jakarta that Indonesia has lost the battle over East Timor," said Jose Ramos-Horta, the exiled Timorese leader and Nobel peace prize-winner.

Portugal and Timorese opposition groups responded to Indonesia's softened position last year by calling for a referendum on independence among the East Timorese. Indonesia has rejected the referendum call but could use a vote in the People's Consultative Assembly, which will combine parliament and 200 other delegates following elections on June 7, as a compromise.

Clinton poised to escape removal from office

By Mark Suzman in Washington

Any chance that President Bill Clinton will be removed from office in his impeachment trial almost certainly ended last night when Republicans failed to win enough support from Democrats in two key votes in the Senate.

Although senators rejected a proposal to throw out the impeachment charges and approved a Republican request to call three witnesses in the trial, conviction is now almost impossible. The two parties plunged back into negotiations over how to speed up proceedings and bring the historic trial to an end, possibly as early as next week.

Republican trial managers from the House of Representatives still claim Mr Clinton committed perjury and obstructed justice in covering up his affair with Monica Lewinsky, a White House worker. But the fact both votes were along identical 56-44 lines indicated it would be impossible to amass the necessary two-thirds majority in the Senate to remove the president. Russ Feingold, from Wisconsin, was the only Democratic senator to side with the Republican majority.

Members of both parties said they hoped to map out a bipartisan agreement on how to proceed, with Democrats giving cautious approval to the Republican plan for accelerated testimony.

Tom Daschle, Senate minority leader, said he was in talks with Trent Lott, majority leader, and was confident the Senate could bring the trial to a rapid conclusion. "I am optimistic that we can achieve some compromise."

Under the Republican plan, Ms Lewinsky, Vernon Jordan, a close confidant of Mr Clinton's, and Sidney Blumenthal, a senior White House aide, would each be questioned for six hours over the weekend by the trial managers and the president's lawyers.

A senator from each party would be present at the depositions and transcripts and videotapes of their testimony would then be given to the full Senate.

After giving the Senate the chance to decide if the depositions contained information that merited additional live testimony, both sides would begin closing arguments around the middle of next week with a final vote on the articles of impeachment as soon as next Friday.

Bill Clinton: Republicans and Democrats are in talks over how to bring the president's historic impeachment trial to a speedy end Picture: AP

The Republican leadership hopes the plan will insulate it from attacks from the party's right wing, which has been insisting on the need for witnesses, without risking a wider public backlash for extending the unpopular trial.

However, Joe Lockhart, White House spokesman, said the president's lawyers needed more time to examine the thousands of pages of documents collected by Kenneth Starr, the independent counsel, before taking any depositions.

Japan attacks US over trade hit-list

By Alexandra Harney and Michiyo Nakamoto in Tokyo

Japan yesterday attacked Washington's move to revive a controversial trade hit-list amid mounting tensions, notably over Japanese steel exports.

Keizo Obuchi, Japanese prime minister, and Kaoru Yosano, the trade minister, criticised the US move to renew "Super 301" provisions as a political manoeuvre.

Under the provisions, any trading partners Washington sees as engaging in "unfair practices" are targeted in a yearly list, putting pressure on them to change. The hit-list is a precursor to trade sanctions, which are rarely used as countries often back down.

Bill Clinton, US president, has indicated he might impose unilateral trade sanctions under a law that enables the government to increase tariffs or quotas.

Mr Obuchi said: "I would be very concerned if the US took action unilaterally."

Officials at the Ministry of International Trade and Industry said they thought the Super 301 decision was more aimed at mollifying trade hawks in Congress than a sign of impending action.

"As countries are trying to recover amid very severe global economic conditions, I have to say we are very concerned that the US, the world leader, has introduced the possibility of taking unilateral action," said Hiromu Nonaka, a government official. "I hope the US will act cautiously and appropriately, in line with international rules," he added.

Japan regards the unilateral use of sanctions as a breach of World Trade Organisation rules. It has been seeking to play down pressures that stem from Japan's large trade surpluses.

The country's steel exports to the US have fallen sharply since November – down 14.9 per cent by volume in December compared with the year before, according to the Japanese finance ministry.

However, it was the nearly 300 per cent increase in steel shipments in the first 11 months of 1998 that prompted calls for retaliatory action from US steel manufacturers. The steel issue has also aggravated bilateral tensions as Japan's trade surplus with the US has soared to its highest level since 1987.

Richard Fisher, US deputy trade representative, who yesterday ended a visit to Tokyo, said the US would try to avoid the type of disputes that soured US-Japan relations in 1995.

War of words, Page 6

WORLD MARKETS

STOCK MARKET INDICES		
New York lunchtime		
Dow Jones Ind Av	9,271.03	(-53.55)
NASDAQ Composite	2,437.92	(+4.51)
Europe and Far East		
CAC40	4,098.10	(+26.82)
DAX	5,061.18	(+74.38)
FTSE 100	5,876.4	(-9.3)
FTSE Eurotop 300	1,191.12	(+3.57)
Nikkei	14,450.09	(+68.05)
US LUNCHTIME RATES		
Federal Funds	4.75%	
3-mth Treas Bills: Yld	4.37%	
Long Bond	101	
Yield	5.14%	
OTHER RATES		
UK: 3-mo Interbank	5¾%	(same)
UK: 10 yr Gilt	137.58	(138.09)
BBA Eurolibor	3¼	(3¼)
Germany: 10 yr Bund	108.5	(108.56)
Japan: 10 yr JGB	99.900	(100.567)
NORTH SEA OIL (Argus)		
Brent Dated	$10.96	(10.655)

GOLD		
New York Comex		
(Feb)	$283.4	(286.3)
London:	$283.55	(285.85)
DOLLAR		
New York lunchtime		
£	1.6483	
€	0.8715	
SFr	1.40835	
Y	115.745	
London:		
$	1.6521	(1.6596)
€	0.8698	(0.864)
SFr	1.3977	(1.3863)
Y	115.42	(114.135)
Tokyo Close		Y 113.7
EURO (London)		
$	1.1500	(1.1574)
£	0.6923	(0.6974)
Y	132.768	(132.094)
SFr	1.6078	(1.6045)

London · Leeds · Paris · Frankfurt · Stockholm · Milan · Madrid · New York · Chicago · Los Angeles · Tokyo · Hong Kong

Euro-zone target price £2.15. Prices in local currency as shown

Bahrain	Din1.300	Iceland	IKr285	Oman	OR1.75
Belgium	BFr90(£2.23)	Italy	L3600(£2.01)	Poland	Zl 10.00
CIS	US$4.00	Jordan	JD1.75	Portugal	Esc290(£1.60)
Croatia	Kn19.00	Kuwait	KW0.750	Qatar	QR13.00
Denmark	Dkr15.00	Latvia	Ls1.85	South Africa	R16
Estonia	EEK34.00	Lithuania	Lt21.00	Spain	Pta325(£1.95)
Finland	FmK13.00(£2.18)	Lebanon	LBP2,500	Sweden	Skr20.00
France	FFr14.00(£2.13)	Luxembourg	LFr90(£2.23)	Switzerland	SFr3.50
Gibraltar	£0.75	Morocco	Dh18.00	Syria	S£90.00
Greece	Dr500	Netherlands	Fl 4.80(£2.18)	Tunisia	Din2.000
Hungary	Ft390	Norway	Nkr19.00	UAE	Dh13.00

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WORLD NEWS
EUROPE

German Greens denounce nuclear deal

By Frederick Studemann in Bonn

Germany's environmentalist Greens were licking their wounds yesterday after their set-back at the hands of Chancellor Gerhard Schröder over government nuclear energy policy.

Leaders of the Greens, the junior partner in Mr Schröder's Social Democrat-led government, lined up to criticise the chancellor's decision on Tuesday to bow to industry pressure and overturn a coalition agreement to stop the reprocessing of nuclear waste from the start of next year.

Antje Radcke, co-chair of the Greens, said the decision was a "defeat" for the party, which had failed to push through its demands for an immediate end to reprocessing as a means of forcing a swift shutdown of Germany's 19 nuclear reactors.

She said the result was evidence of the party's weak negotiating position in the government. The Greens had had to learn the "bitter and painful business of coalition where one has to make compromises".

Margarete Bause, head of the Greens in Bavaria, where the local Bayernwerk utility generates most of electricity from nuclear power, said: "We must remind Schröder that he is in coalition with the Greens and not the nuclear industry."

However, there was no sign the party was prepared to force the issue and risk splitting the government.

In parliament yesterday, Jürgen Trittin, the Green environment minister, said his party had been successful in moving the debate on to the point where "we are no longer talking about whether [to exit nuclear power] but how to do so".

Government and industry will meet again in March to discuss the creation of interim storage facilities for nuclear waste to which spent fuel will eventually be transferred instead of being reprocessed.

The two sides will also discuss the remaining operational lifetimes of individual reactors. Mr Trittin's bill will be introduced in revised form in parliament, also in March.

The energy industry welcomed the deal, while reiterating opposition to the government's plans to withdraw from nuclear power. Manfred Timm, chairman of the HEW utility and the industry's lead negotiator with government, said the withdrawal would take decades.

The share prices of Germany's three big energy combines, RWE, Viag and Veba, rose strongly yesterday as investors welcomed what one Frankfurt analyst called "Round One victory for the energy companies".

Fischer draws up EU reform agenda

By Ralph Atkins and Frederick Studemann in Bonn

Joschka Fischer, Germany's foreign minister, is drawing up an agenda for reforming European Union institutions by 2001. It envisages overhauling the system by which member states vote but so far stops short of his ideas for a European constitution.

In an interview with the FT, Mr Fischer listed plans for greater use of "majority voting" to replace the principle of unanimity as a central part of the next stage of institutional reform.

FT interview, Page 12

Lafontaine urges boost to European demand

By Frederick Studemann and Ralph Atkins in Bonn

Oskar Lafontaine, German finance minister, yesterday called for a boost in European demand to help crisis-ridden emerging economies and restated Bonn's commitment to creating a new "architecture" for the world's financial system.

At the same time, however, he toned down earlier proposals to create exchange rate target zones.

Mr Lafontaine warned recovery in emerging markets through export growth was being hampered by sluggish European demand. "[Recovery] can only take place if domestic demand in industrial nations speeds up and imports from the crisis-affected regions are expanded correspondingly."

He said the German government would pursue fiscal stability and wage growth in line with productivity. This left scope to target monetary policy towards boosting growth and job creation, he said, refering implicitly to the role of the European Central Bank. He stopped short, however, of calling for a cut in euro-zone interest rates.

The report said there was an international consensus to control "short-term speculative movements of capital", which were pernicious, and for exchange rates, especially in emerging market countries, to be linked to "the real economic situation". It gave no concrete details, however, about how capital movements would be separated into the categories of speculative and economically beneficial.

Agreeing a common strategy on exchange rates would be a core component of an international "financial architecture". The German government, which currently chairs the Group of Seven industrial states, hopes the details of such an architecture will be agreed at the G7 summit in Cologne in June.

But the report added: "The federal government is not striving for [exchange rate target zones]." The finance ministry said emerging market crises had a noticeable effect on German economic performance in 1998 when exports slowed in the second half of the year, in spite of the fact that in direct terms the crisis-hit countries accounted for only 10 per cent of German exports. But there was a related fall in exports to countries with greater exposure to the crisis-hit regions.

For 1999 the finance ministry offered a cautious forecast of 2 per cent growth in gross domestic product, down from 2.8 per cent in 1998. This would not be enough significantly to reduce unemployment which was forecast to dip by some 200,000 to 4.1m.

Assumptions underpinning Mr Lafontaine's forecasts include a strengthening of the euro against the US dollar, but he would not speculate on the size of such a movement.

Ahern distances himself from funding row

By John Murray Brown in Dublin and Michael Smith

Bertie Ahern, the Irish prime minister, yesterday called on Pádraig Flynn, the country's EU commissioner, to explain his role in an alleged political funding row, which he said was damaging Ireland's reputation in Europe.

Under pressure to explain his own involvement in the controversy, Mr Ahern revealed to a special session of the Irish parliament that the alleged donation by a Irish businessman had never been passed to the Fianna Fail party coffers. Tom Gilmartin, a property developer, claims he gave a cheque to Mr Flynn when he was party treasurer and a minister under former prime minister Charles Haughey in the late 1980s.

Mr Ahern yesterday moved to distance himself from his former friend and colleague amid concern that the allegations may force the small right-of-centre Progressive Democrats to pull out of his coalition, triggering an early general election.

"Neither the government nor the Fianna Fail party have any jurisdiction over the EU commissioner," said Mr Ahern, but he "expressed the wish that he [Mr Flynn] would clarify the situation as soon as possible". Mr Ahern said he had written to Mr Flynn in October to date had received no reply.

Mary Harney, the PD leader, chose not to speak in yesterday's special debate but both John Bruton, the conservative Fine Gael leader and Ruairi Quinn, the Irish Labour party leader, sought to exploit the tensions within the coalition by accusing Mr Ahern of holding back information from Ms Harney.

The allegations against Mr Flynn come as the European Commission attempts to rebuild its image after fighting off censure moves in the European Parliament sparked by separate allegations against other commissioners of mismanagement and nepotism.

Mr Flynn has said there is no question of him resigning.

The chances of him being forcibly removed by EU member governments collectively or by his fellow commissioners are seen in Brussels as remote.

None of the allegations against Mr Flynn refer to his six-year stint as a commissioner.

Editorial comment, Page 13

French auction houses say 'non'

By Robert Graham in Paris

French auctioneers have begun a rearguard action to prevent Sotheby's, the international auction group, from circumventing their trade monopoly.

The campaign opened yesterday when Drouot, the company grouping the Paris auction houses, forbade any of its members from assisting Sotheby's in the holding of auctions in France. In a brief statement, Drouot said: "If Sotheby's has decided to get round the law, then it can under no circumstances use the services of our members to help it."

Drouot, whose members account for the bulk of auction turnover in France, was reacting to a decision last week by auctioneers Poulain-Le Fur to help Sotheby's hold their first sale in France. Sotheby's said at the time it had turned to Poulain-Le Fur to assist in a sale of the contents of a chateau near Paris in June while awaiting legislation ending the monopoly enjoyed by the 400 year-old profession of *commissaires priseurs*.

By using the services of a French auctioneer, Sotheby's appeared to be able to get round the existing ban on their conducting business in the country. Although Sotheby's has had a large auction operation in France for more than a year, it has been prevented from holding sales because of the failure of the French government to approve legislation liberalising the auctioneering business. Christie's, the other main international auction house, has found itself in the same position.

The legislation should have been in place by January 1998 under EU directives. But long wrangles between auctioneers and the Socialist-led government have led to an impasse.

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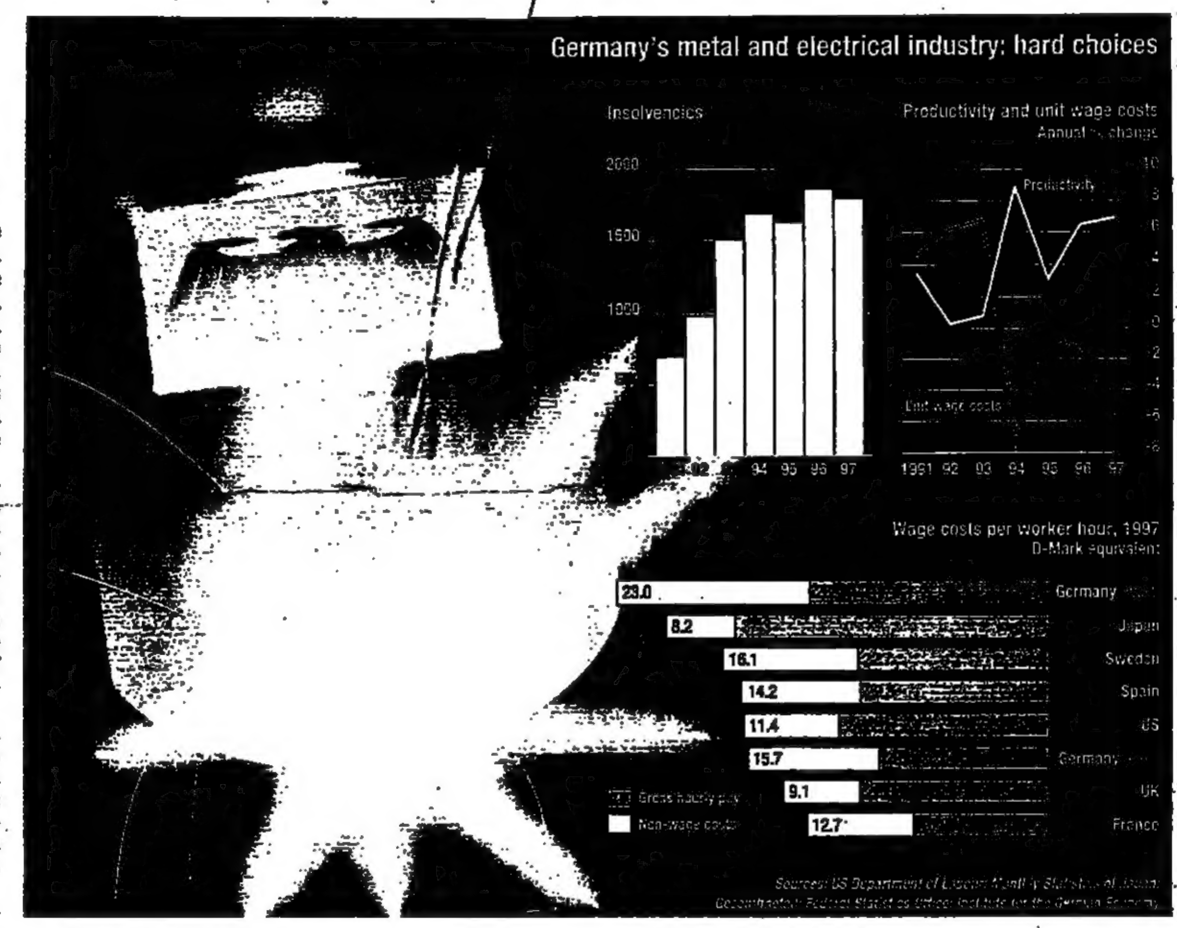
Metal workers refuse to be beaten in wage battle

German unions and employers are at loggerheads over the health of the industry, writes **Uta Harnischfeger**



Today at midnight the truce will be over. Unless employers in the German metal and electrical sector hand unions an improved wage proposal, up to 3.4m metal workers will start staging warning strikes from tomorrow and threaten a full-blown strike by the end of February.

In Germany, when employers' and employees' wage proposals are miles apart it is business as usual. But this time around employers opened a can of worms when they proposed to supplement a 2 per cent wage increase with a 0.5 per cent one-off payment subject to a company's state of health.

This has given rise to a new issue of contention: just how healthy is the German metal industry? Given its diversity and given how differently the two sides judge the sector's condition, there is a fierce debate.

Jürgen Peters, vice-chairman of I G Metall, Germany's largest union, is still fuming over the employers' wage offers. He says the employers are not only offering a ridiculously low pay increase – the unions had called for 6.5 per cent – but they are also painting a distorted picture of the metal industry's profitability and future. The head negotiator of the employers' association Gesamtmetall, Werner Stumpfe, says different circumstances at different companies calls for a flexible wage agreement.

"A deal that doesn't reflect the economic landscape in 1999 will cause job losses," he warns.

I G Metall has traditionally favoured wage agreements that apply to the entire industry and has only grudgingly accepted in-house deals. The two sides base their arguments on conflicting statistics. Employers say that 20 per cent of their members are in the red, 20 per cent "make a killing" and the large mass "does OK".

Unions counter that net income from entrepreneurial activities has increased by 21 per cent since the metal industry's crisis year in 1993, while workers' net income has shrunk 7 per cent since then.

Industry analysts, meanwhile, estimate that roughly 30 per cent of the industry is scraping by, with another third posting average net profit margins around 2 per cent and another third showing profit margins of up to 20 per cent.

There is no easy means of judging the industry as a whole.

For one thing there is no other industrial sector in Germany in which profitability, size and export dependence vary so widely.

About a third, or roughly 1m, metal workers are employed in mostly medium-sized machinery and engineering companies and another 700,000 work in the motor industry, which includes the large car makers and their small-to-medium-sized parts suppliers. About 250,000 work in steel and sheet metal industries and 200,000 work in blacksmith's shops and foundries. The remaining metal workers are scattered across various industries such as shipbuilding and aerospace.

Machinery companies make more than 60 per cent of their money abroad, while there is much domestic demand in the car industry. Machinery makers depend heavily on the general investment sentiment, while cars are a consumer good that is closely tied to domestic consumption patterns.

Thus, when German exports started falling in the second half of 1998, it immediately hurt machinery makers as domestic companies also became wary about investing in new machinery. Orders in the machinery industry were up 10 per cent in the first half of 1998, but down 13 per cent in the three months from September to November compared with the year-earlier period. But given the distorting base effect from booming orders in 1997, the association for machinery makers contends that the order book has "normalised from its exorbitant growth rates in 1997".

According to the association, machinery makers' average net profit margin was at 2.5 per cent in 1998, which marks a steady increase from its lowest ever net margin of 0.2 per cent in 1993. In 1993, an economic downturn, paired with the D-Mark's strengthening, hit the German metal industry and forced many companies to restructure.

For the metal industry as a whole, the average net profit margin was 2.4 per cent in 1997. No data is available for 1998.

Despite the improvement, the machinery industry association says that the 2.5 per cent profit margin is still too low "to put on fat for bad times".

"We are one of the most cyclical industries, and in order to withstand economic downturns, our profit margin should be around 4 to 5 per cent," itsays. At the end of last year, the association lowered its forecast and said that production would grow 2 per cent in 1999, down from an original 4 per cent. That contrasts with a 7 per cent growth rate in 1997.

On the other hand, carmakers and their suppliers have proven relatively resistant to the severe downturn that started in the middle of last year. Although motor industry executives have cautioned that growth may slow in 1999, most carmakers still have long waiting lists and order backlogs. In 1997, German car production grew by 10.5 per cent. In 1998, that figure should come in slightly lower, but no data is available yet.

Then there is the issue of unit wage costs. In the motor industry, for example, unit wage costs are still a fifth above their European counterparts and a third above US and Japanese carmakers.

Nonetheless, I G Metall proclaims "an end to our modesty". As Mr Peters put it: "Workers are clenching their fists in their pockets."

FIVE-MEMBER TEAM MEPs IN ATTACK ON 'TOOTHLESS BODY' AS QUESTIONS ARE RAISED OVER LEAKED MEMO

Commission 'fraud-busters' named

By Neil Buckley in Brussels

The European parliament last night named a five-member committee of experts charged with rooting out any fraud and mismanagement at the European Commission, the EU's executive.

Creation of the committee was the main element of a compromise to avert a vote by the parliament two weeks ago to censure the Commission, which would have forced all 20 commissioners to resign.

But the new group – which has been promised unfettered access to all Commission documents – was immediately attacked by some parliament members as a toothless body made up largely of former EU officials.

The Commission, meanwhile, is facing new questions over a leaked memo, apparently from within its press service, suggesting that it should not be "dominated" by the notion of transparency, and that "a dose of cynicism, and sometimes hypocrisy, is sometimes necessary in diffusing information".

José Maria Gil-Robles, the parliament's president, insisted that his nominations, selected from names proposed by parliament's political groups, were "completely independent". It was essential, he added, to have committee members with expertise in EU finance and legal matters.

He won agreement from parliament leaders last night on a list including two former presidents of the Court of Auditors, the EU's spending watchdog – France's Pierre Lelong, and André Middelhoek of the Netherlands.

The list also included a former advocate-general from the European Court of Justice, Belgium's Walter Van Gerven, and the auditor-general of the Swedish national audit office, Inga-Britt Ahlenius. The fifth member was Juan Antonio Carrillo Salcedo, a former member of the European Court of Human Rights.

Questions remained over the committee's scope, and whether it could finish its report by the March 15 deadline set by parliament. If it finds wrongdoing, parliament could reintroduce its censure motion, or put pressure on Jacques Santer, Commission president, to force resignations.

But time is running out, with parliament facing elections in June. The centre-right European People's party, parliament's second biggest, has expressed scepticism about the committee. It says it is parliament's job to supervise the Commission.

NEWS DIGEST

NATO MAY THREATEN TO USE FORCE

Heavy Kosovo fighting spurs effort to hold talks

Heavy fighting erupted between Serbian security forces and ethnic Albanian rebels in Kosovo yesterday, adding a sense of urgency to diplomatic efforts to arrange peace talks. Yugoslav army artillery hammered positions held by the Kosovo Liberation Army (KLA) near the northern town of Podujevo.

Nato is today expected to threaten force if Belgrade rejects a peace initiative likely to be announced by the six-nation Contact Group in Paris tomorrow. Nato may also demand that Belgrade pull back army units to barracks and withdraw some 1,000 members of special police units. "We have been working to quicken some political solution and also to keep in mind what can be done through the threat of use of force," Madeleine Albright, the US secretary of state, said in Cairo.

If Belgrade and the Kosovo Albanian leadership agree to talks, they will be presented with a plan that would give Kosovo substantial autonomy for an interim three-year period, but not the independence demanded by the KLA.

Chris Hill, the US envoy, yesterday met KLA commanders in the central Drenica region in an attempt to persuade them to join the peace process. Ibrahim Rugova, the elected leader of the Kosovo Albanian majority, and the Yugoslav government have indicated they are ready to restart dialogue. **Guy Dinmore, Belgrade**

HOLOCAUST ASSETS

Clash over cost of search

Paul Volcker, the former US Federal Reserve chairman, yesterday clashed with Swiss bankers who estimated that the cost of his committee's search for the Swiss bank accounts of Holocaust victims could be as much as SFr1bn. He said that the investigation had only cost SFr160m ($115m) to date.

Swiss bankers have become increasingly concerned at the mounting cost of an investigation, which has turned up an estimated SFr100m. Several smaller cantonal banks have threatened to suspend payments of the auditors' fees.

More than 400 auditors from the world's top five accounting firms have been combing 2.5m Swiss bank accounts in a bid to find unclaimed assets of Holocaust victims. At a press conference in Zurich yesterday, Mr Volcker refused to disclose how much money had been found, but said: "If we found no dormant accounts and the investigation cost $100m, it would still be a great victory for the Swiss banks." He said the investigation's purpose was to "clean up the record of Swiss banking", he said. **William Hall, Zurich**

GIBRALTAR DISPUTE

Spanish fishermen arrested

Gibraltar and British police seized a Spanish fishing boat yesterday and arrested its crew, sparking an outcry from Spain, which said it would not tolerate harassment of its fishing boats by the British colony.

Spanish authorities said the Pirana's 14-strong crew were charged with illegally fishing with nets in British waters. They were later released on bail of £300 ($495) each and told to reappear on February 10, court sources said.

Spanish officials had rushed to Gibraltar demanding the crew's release. They said the arrests showed that Gibraltar was failing to keep promises made by the Spanish and British governments. **Reuters, Madrid**

SWEDISH ECONOMY

Currency rating raised

Fitch IBCA, the international credit rating agency, yesterday raised Sweden's long-term foreign currency rating by one notch in tribute to the country's fiscal discipline and in the hope of its early entry into European monetary union.

Fitch IBCA said the upgrade, from AA- to AA, reflected the fact that the country's budget deficit, which stood at 12 per cent of gross domestic product in 1993, was turned into a surplus last year, while inflation was close to zero. It was also encouraged by the moderation in public opposition to the euro. **Arkady Ostrovsky, London**

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Kremlin denies rift with Primakov

By John Thornhill in Moscow

The Russian media yesterday indulged in an orgy of speculation about Boris Yeltsin's political future as the ailing president instructed his security council to take steps to guarantee stability in the country.

The clamour reached such a pitch that the Kremlin was forced to deny there had been any rift between the president and Yevgeny Primakov, the prime minister, who yesterday held brief talks with Mr Yeltsin in hospital.

The commotion began earlier this week when the Sevodnya newspaper published a letter from Mr Primakov to Gennady Seleznyov, the speaker of the lower house of parliament, suggesting a compromise solution to defuse tensions between the different branches of power.

Mr Primakov proposed that the Duma should drop impeachment proceedings against the president and adopt a law securing the perks and privileges of former presidents. In turn, the president would promise not to dissolve parliament nor sack his government before the end of the year.

Grigory Yavlinsky, leader of the liberal Yabloko party, summed up the proposals as a case of "you don't touch us, and we won't touch you".

Similar compromise proposals have been floated before, most notably when Mr Yeltsin was trying to cajole parliament into accepting the reappointment of Victor Chernomyrdin as prime minister in August. But they were given added spice this week as it appeared that Mr Primakov was reviving the proposals on his own initiative.

The Russian press reported that the presidential administration was in a panic when it first learnt of Mr Primakov's letter. Several commentators suggested he might have been trying to assert his own political influence and prepare for an orderly succession of power. As prime minister, Mr Primakov would temporarily take over the presidency if Mr Yeltsin were physically incapable of running the country.

Mr Primakov, a former spymaster and foreign minister, is renowned as an extraordinarily cautious politician who would be unlikely to stir up such controversy without knowing where it would end.

Yesterday, the Kremlin forcefully spelled out Mr Yeltsin's position, saying he would never countenance any changes to the 1993 constitution, in effect ruling out the possibility of a compromise deal.

"The president's fundamental position is that the constitution enshrines the rights of all branches of power, including the president. He is not renouncing his rights and he does not intend to," said Dmitry Yakushkin, the presidential press secretary.

The Kremlin added that Mr Yeltsin and Mr Primakov were fully in accord in terms of political strategy although the prime minister had been given freedom to work out his tactics.

Mr Yakushkin also said Mr Yeltsin had recovered sufficiently from his bleeding ulcer to contemplate leaving hospital by the end of the week.

CENRAL BANK NEW GOVERNOR REVERSES TWO-YEAR-OLD DIRECTION IN LOAN COSTS TO OFFSET SLOWDOWN

Norway cites euro as interest rates cut

By Valeria Sold in Oslo

Norway yesterday cut its principal interest rates with effect from today. Svein Gjedrem, the central bank's new governor, cited the interest rate differential compared with the euro, a tight government budget for 1999 and reductions in price and wage inflation over the past five months.

The rate cuts - 0.50 percentage points to 7.50 per cent and 9.50 per cent on deposit and overnight lending rates respectively, comes only weeks into Mr Gjedrem's six-year term. Under his predecessor, Kjell Storvik, rates were raised seven times last year as the economy suffered rising inflationary pressure, generous wage settlements, falling oil prices and a weakening krone.

The currency sured against the euro late yesterday afternoon to 8.5615 per euro from 8.5903 just before the cut, as markets applauded Mr Gjedrem's boldness in cutting rates to offset signs of an economic slowdown.

In an interview before the rate cut was announced, the new governor played down expectations of any link with the euro, the European Union's new single currency, in spite of talks last week on possible currency co-operation between Kjell Magne Bondevik, the prime minister, and European Commission officials. They agreed to create a panel of experts to study stabilising the euro-krone exchange rate. Norway voted against EU membership in 1994.

Mr Gjedrem said the government had not raised the prospect of a return to an exchange rate policy following the decision taken last year to allow the krone to float.

In the absence of such a policy, the new governor said: "It would not have very much economic meaning to have a deal or agreement with the European Central Bank on interventions, when [the Norwegian central bank] itself does not have an obligation to intervene."

Norway's confederation of business and industry, a proponent of a closer link to the euro, would like the country to adopt a policy similar to its Danish counterpart which seeks to keep the Danish krone trading within a narrow band either side of a central rate against the euro (the so-called ERM-2 arrangement). But Mr Gjedrem is reluctant to discuss whether he might be open to that suggestion.

Meanwhile, economists in Oslo had expected that the changing of the guard would soon lead to an interest rate cut. Many had argued that Norway's economic outlook did not justify such a large differential between Norwegian and EU interest rates of 3 per cent.

Svein Gjedrem: played down expectations of any link with the euro

Mr Gjedrem went out of his way to emphasise continuity in monetary policy. But, with just a few weeks before the bank governor's much-awaited annual speech, the financial community will be looking to see whether there are any signs that the new central bank governor will bring further changes as the Norwegian economy enters a period of weaker growth following five years of cyclical expansion. So far, the signals from the new governor do not indicate he will be seeking any substantial changes in the short term.

"If the exchange remains stable and wage and price inflationary pressure comes down .... If all the problems are solved, then the situation would be changed," he said.

The signals from the new governor appear to point to a period of consolidation rather than radical change - at least in the near term.

Mr Gjedrem appears happy with that verdict: "I'm a civil servant. Civil servants aren't supposed to be revolutionary."

Italy to aim for balanced budget in 2002

By James Blitz in Rome

The Italian government yesterday said it would aim to achieve a balanced budget in 2002, but strongly hinted that it might fail to meet the target because of cyclical economic factors.

In spite of lower than expected economic growth in 1998, Carlo Azeglio Ciampi, treasury minister, issued a note stating that Italy aimed to eliminate its budget deficit "in structural terms" over the course of the next three years.

But Mr Ciampi stressed that the budget deficit for 2002 could be affected by cyclical economic factors, such as higher welfare payments and lower than expected tax receipts.

"If over the next three years, the economic cycle turns out to be better than expected, we could have a slight surplus," he said. "If on the other hand, the course of the economy is worse than expected, we could have a slight deficit."

Mr Ciampi's comments were aimed to reassure Italy's partners in the single European currency that the country's public finances remained under tight control in spite of last year's poor growth performance. The goal of a balanced budget over the medium term is at the heart of the growth and stability pact to which all euro-zone members must adhere.

Mr Ciampi said in Brussels earlier this week that Italy's 1998 budget deficit target of 2.6 per cent of gross domestic product should be "substantially met".

However, the final figure will not be known until the end of February and senior officials say they are still uncertain of the precise outcome. On Wednesday, Massimo D'Alema, prime minister, told Milanese industrialists he expected a deficit to GDP "in the area of 2.7 per cent or 2.8 per cent".

However, concern still focuses on the growth outlook for 1999. Speaking in Brussels, Mr Ciampi said "we have to reduce our growth forecast for 1999", adding that growth was likely to be "no more than 2 per cent".

Slovakia seeks UK support for EU entry

By Kevin Done, East Europe Correspondent

Slovakia yesterday sought UK support in its diplomatic offensive to persuade European Union member states to bring it into the first wave of east European countries negotiating membership of the EU.

Eduard Kukan, Slovak foreign minister, yesterday met Robin Cook, the British foreign secretary, and George Robertson, the defence secretary, as Slovakia intensified its campaign to catch up with its neighbours Poland, Hungary and the Czech Republic, which began accession negotiations last year.

Mr Kukan said in London yesterday that Slovakia was becoming increasingly "frustrated" by the EU's lack of recognition of the reforms carried out by the new coalition government formed last autumn.

Slovakia was the only one of the 10 candidate countries from eastern Europe to be excluded in 1997 for political reasons from the first wave of five countries chosen to open negotiations.

The EU was concerned about Slovakia's so-called "democratic deficit" under the government of Vladimir Meciar, who was heavily criticised for undermining democratic institutions and minority rights. Slovakia became increasingly isolated and was left out of the group of east European countries joining the Organisation for Economic Co-operation and Development (OECD) and Nato.

The Meciar government suffered a heavy defeat in last autumn's general election, however, and the four-party coalition government led by Mikulas Dzurinda has moved quickly to push through reforms aimed at answering the earlier criticisms of the international community.

Mr Kukan said that reforms implemented in the Slovak parliament meant that opposition parties held the chairmanship of 6 of 18 parliamentary committees, including the main intelligence committees.

The government had moved to end the political stalemate that had left the country without a president for the past year with the result that a direct election for president would be held towards the end of May or in early June.

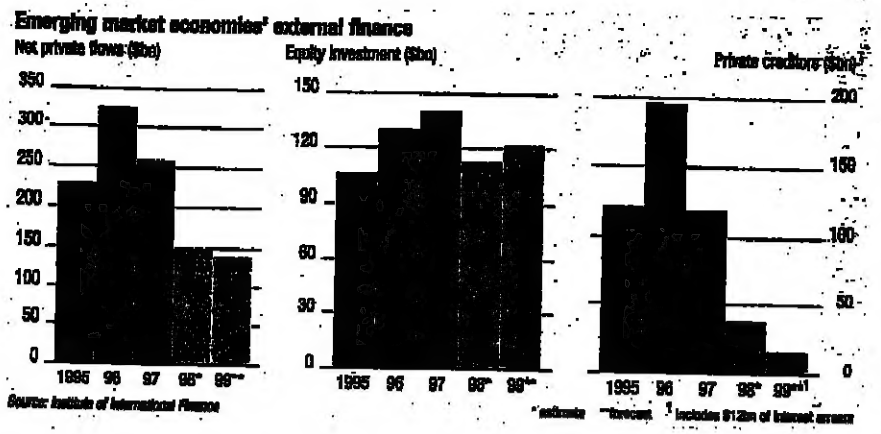
Minority rights had been improved by the inclusion for the first time of ethnic Hungarian political parties in the coalition government. In addition, a minority language law was being prepared that would allow the Hungarians to use their own language in official communications with local authorities.

Mr Kukan said he expected that a breakthrough would be achieved before the end of 1999, which would allow Slovakia to join the EU at the same time as Hungary, the Czech Republic and Poland.

INTERNATIONAL

Private lending to emerging markets expected to plunge further this year

By George Graham, Banking Editor, in London



Voluntary private sector lending to emerging markets could drop to just $5bn this year as banks continue to pull out of Asia and Latin America.

New estimates from the Institute of International Finance, an association of 300 of the world's largest financial institutions, show net lending from private creditors plunged to $38.6bn last year from $196.1bn in 1996.

This year, private sector lending is projected to halve again to just $17.4bn – and $12bn of this is interest arrears, rather than voluntary lending by banks.

"We are at a turning point," said Bill Cline, the IIF's chief economist. "We are about to find out whether the credit market, which was so robust in the mid 1990s, has seized up, or whether it will return to its former dynamism."

In a separate study of what went wrong in emerging markets last year, the IIF acknowledged that part of the blame lay with bad lending and investment judgments, rather than simply with poor government economic policies.

"Both borrowers and lenders must do a better job if the problems of the last 18 months are not to be repeated," said John Bond, the IIF's chairman and chairman of HSBC Holdings, the large UK-based bank.

Mr Bond said part of the drop in bank lending reflected a fall in demand for loans, rather than simply banks turning off the supply of loans.

But the IIF warned against efforts by the International Monetary Fund to make private sector lenders share the burden of reviving economies in crisis by lending them more money even if they were still in arrears on their private debts.

This would be counter-productive, making it harder for countries in crisis to regain access to the financial markets.

The IIF estimates foreign equity investors' losses in Asia and Russia at about $240bn, with banks losing about $60bn and other foreign creditors about $50bn.

On that basis, it argues that the "moral hazard" argument, that public sector rescues encourage investors to think they can get off scot free if the country they have put their money in collapses, is exaggerated.

"Private sector losses in these economies suggest that it's very unlikely the lesson investors will take from these crises is that there is no risk," Mr Cline said.

The IIF projections show equity investment in emerging markets holding up relatively well. Direct equity investments – mostly purchases of companies by foreign buyers – is forecast to remain above $100bn. Portfolio investment – share purchases by institutional investors – should pick up after last year's slump to a net $1.7bn.

The institute also projects a revival in net flows of private sector finance to Asia, with buoyant equity investment more than offsetting a continued withdrawal of bank and other lending.

Year 2000 fears may delay takeovers

By Clay Harris in London and John Authers in New York

Deutsche Bank's concern that fears about the millennium bomb could delay implementation of its proposed $10.1bn takeover of Bankers Trust has been greeted with surprise by US regulators.

A senior Deutsche Bank executive said this week that, if the deal was not approved by June 30, the bank believed it might be asked by the US Federal Reserve not to integrate information technology operations until next year to avoid any risk of Year 2000 computer failure.

The remarks by Josef Ackermann, Deutsche's management board member responsible for corporate and investment banking, highlight a debate among investment bankers in the US and Europe about whether year 2000 fears will inhibit mergers and acquisitions activity, especially in the second half of 1999.

While the Fed did not comment on Mr Ackermann's remarks, other regulators suggested it would not normally involve itself in the details of management in the way he suggested.

The Fed has signalled in recent weeks it is cautiously optimistic that Year 2000 disruption will not be as great as some had feared. Roger Ferguson, a Fed governor, said earlier this month the US was "likely to see some disruptions of economic activity because of year 2000 problems but the effects are likely to be temporary and quickly reversed".

In the UK, the Financial Services Authority said: "We have no fixed deadline, but where banks wish to merge, they need to satisfy us that the merger will not disrupt their preparations for the year 2000."

The issue divides merger and acquisition specialists, who have just enjoyed a record year for global takeover activity and seen 1999 get off to a roaring start.

Some, such as Rory Tapner, head of equity capital markets at Warburg Dillon Read, believe few buyers will want to take on new acquisitions in the second half.

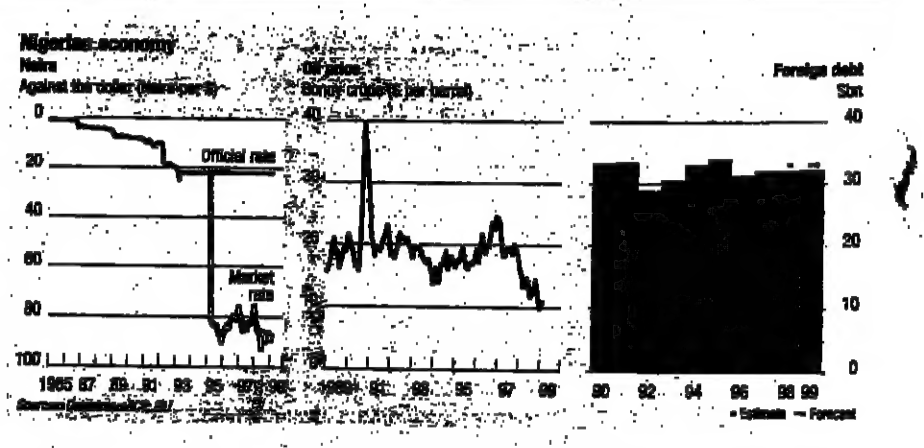
Richard Sapp, Goldman Sachs' head of M&A for Europe, agrees that Year 2000 fears may affect timing, and Bernard Taylor, head of corporate finance at Robert Fleming, has already seen clients not proceed with deals for the time being.

"Wherever there's an uncertainty factor, there's an effect," said Don Meltzer, head of European M&A at Credit Suisse First Boston, but he believed activity was more vulnerable to other factors such as share price volatility.

But John Deans, an investment banking director at N.M. Rothschild, said: "On a list of 'cons' in doing a transaction, I don't think it would rank that high." As to Year 2000 apprehensions preventing a deal from going ahead, Philip Keevil, head of European M&A at Salomon Smith Barney, said: "I haven't come across it, and no one else [at Salomon] has."

IMF dips its toes into Nigeria's uncertain waters

Africa's most populous country is returning to democracy and the arms of the international donor community, report **Michael Holman and Tony Hawkins**



Nearly seven years after their last agreement with Nigeria's military government collapsed, the International Monetary Fund is back in town.

Just 18 weeks before the soldiers are due to hand back power to an elected civilian government, Africa's most populous nation will be trying, with the Fund's assistance, once again to overcome the corruption and mismanagement that has seen it squander $280bn of oil earnings over 25 years.

Provided Nigeria meets programme targets during a period of formal monitoring, say Fund officials, it should qualify for an enhanced structural adjustment facility of $1bn. This would pave the way for negotiations with the Paris Club of official creditors for rescheduling their $20.6bn share of the country's external debt, put at $29bn to $31bn.

Ismaila Usman, finance minister, hopes this timetable will be shortened so that an IMF loan, a debt-rescheduling agreement with the Paris Club and a donor's consultative meeting could be concluded before the civilians take over at the end of May. This would enable Nigeria to close its $1bn-$1.5bn financing gap for 1999.

Although previous deals failed after the military reneged on its pledges, this time it could be different, say Nigerian officials. Different, partly because after 16 years in power the soldiers are on their way back to the barracks, but also because Nigeria's economic plight has deepened to the point where radical surgery is now essential.

The oil price has virtually halved since the last IMF agreement a decade ago, the infrastructure is on its last legs, and the naira, worth a dollar in the early 80s, buys little more than a cent today.

New problems have added to the formidable challenge awaiting the victor of next month's presidential elections. The Nigerian army is engaged in a debilitating peace-keeping mission – which it is in no shape to finance – in Sierra Leone.

At home, an estimated 10 per cent of oil production is closed down in the Delta region where radical young protesters are demanding effective action to reverse environmental degradation and a more equitable sharing of oil revenues.

Meanwhile, a fragile transition to civilian rule is under way – diverting attention and resources away from the economic crisis. Although the process now looks irreversible, international monitors warn that much could still go wrong.

The electoral register is inflated; it is unclear which of two constitutions will finally be applied on February 27; the formidable logistics are unlikely to be tackled efficiently, leaving the way open for cries of foul and subsequent legal challenges.

Hopes that the election will end uncertainty so that businessmen can make long-term investment decisions are unlikely to be realised. Instead, the installation of a civilian president at the end of May may well mark the start of a wide-ranging, protracted constitutional debate about regional autonomy and the need for a fairer formula for sharing oil revenue – which accounts for 95 per cent of exports, two-thirds of government revenue and 35 per cent of GDP.

In his seven months at the helm, Abdulsalami Abubakar has done enough to get the reform movement on the road – abolishing the dual exchange rate and the domestic fuel price subsidy, promising central bank autonomy, and cutting some public sector spending.

But the full adjustment impact of last year's steep oil price decline has still to be felt, say bankers, most of whom expect the naira to drift from its current level of N86 to the dollar to around about N100 to N110 by Christmas.

The new president, fearful of the potential social consequences of currency devaluation will have to choose between leaving the naira to find its own level or using foreign reserves of over more than $6bn and tight monetary policy to hold the overvalued currency.

It requires a huge leap of faith, says one western diplomat, to believe that the incoming government can end military involvement in Sierra Leone, sort out the crisis in the Delta, implement tough economic reforms that strike at the very heart of Nigeria's all-pervasive political patronage system, while coping with the country's worst economic crisis since independence in 1960.

As in the past, Nigerian leaders warn warn that without rapid and substantial debt relief Nigeria's battered society will implode.

This time round, however, their case may be more compelling, and creditors are starting to ask themselves whether the new government is capable of keeping the promises Gen Abubakar has made on its behalf without outside help.

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NEWS ...

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NEWS DIGEST

TALKS AT WTO

Ruggiero formula fails to bring banana breakthrough

Intensive consultations at the World Trade Organisation yesterday failed find a way forward in the banana dispute between the US and the European Union that would allow today's meeting of the dispute settlement body to proceed without interruption.

Caribbean countries blocked the agenda of the dispute settlement body earlier this week which was scheduled to consider a US request for WTO authorisation to impose $520m of sanctions on EU goods. The US claims the EU has failed to comply with WTO rulings condemning its banana import regime, a charge Brussels denies. The amended regime continues to favour banana imports from African, Caribbean and Pacific countries which Washington argues harm US distributors of Latin American bananas. Renato Ruggiero, WTO director-general, has been trying to get both sides to agree to a formula under which the US would request sanctions and the EU would simultaneously invoke its right to arbitration of the amount and type of goods involved. **Frances Williams, Geneva**

POWER PROJECT

EdF in Vietnam talks

Vietnam is to begin negotiations with Electricité de France on the development of a build-operate-transfer $400m gas-fired power plant at Phu My to the east of Ho Chi Minh City. The 700MW project, known as Phu My 2.2, is the centrepiece of efforts by the World Bank to promote private-sector infrastructure funding in Vietnam and has been under discussion for more than four years.

A consortium headed by EdF and including Tokyo Electric, Sumitomo and Alstom was selected ahead of two rival groups, led by AES of the US and Belgium's Tractabel.

EdF is expected to begin negotiations by March with the state-owned utility, EVN, and with Petrovietnam. Project officials say they hope an investment licence will be granted by the end of the year. However, two other smaller private BOT power projects in Vietnam, involving Finland's Wartsila Power and Oxbow Power of the US have become bogged down in negotiations over government guarantees and power and fuel supply contracts. **Jonathan Birchall, Hanoi**

WTO ACCESSION

EU backs Taiwan deal

The European Union has verified an agreement with Taiwan on the terms of the island's accession to the World Trade Organisation, Taipei trade officials said yesterday. The EU is one of the last of Taiwan's trade partners to complete WTO bilateral talks. Taiwan has still to conclude bilateral negotiations with Canada which have been stalled by disagreement on agricultural issues. Taipei is also waiting for Hong Kong to verify its accession agreement.

Taipei officials said they hoped to proceed with multilateral talks in March and to win entry to the WTO by the end of the year. However, an informal agreement among WTO members to ensure mainland China joins first could stall Taiwan's application as Beijing's efforts to win entry have appeared to make little progress. **Mure Dickie, Taipei**

DISPUTE WITH US EXECUTIVE ACCUSES US INDUSTRY OVER MOVE TOWARDS PROTECTION

Japanese step up war of words over steel

By Alexandra Harney in Tokyo

The US steel industry is taking advantage of weakness in the US administration during President Bill Clinton's impeachment trial to resurrect protectionist policies, according to a Japanese steel executive.

Hiroki Sasaki, director in charge of exports for Nippon Steel, Japan's leading steel manufacturer, and a member of the Japan Iron and Steel Federation, warned that US steel makers' demands for government protection would undercut US competitiveness, particularly in comparison to highly efficient Japanese producers.

"The United Steel Workers Union has considerable political influence and the Democratic party was forced to make a compromise with them. [The Clinton administration] has made it into a larger political issue than necessary to camouflage the problems between the Democrats and the Republicans," Mr Sasaki said.

The root of the dispute, he argued, was the inefficiency and mismanagement of US steel mills, he argued. US steel makers were forced to cut their prices to sell inventories accumulated during the strike at General Motors, and were overly dependent on supply from overseas, he said.

The job losses and sharp decline in performance at US steel mills had nothing to do with the surge in Japanese imported steel, Mr Sasaki insisted. "Layoffs – they do that all the time. The US steel makers used them for political purposes."

Mr Sasaki made his comments as the US moved closer to announcing a decision on its investigations into anti-dumping charges filed by US steel manufacturers. His sentiments are also in keeping with the criticism expressed by Japanese officials and industry executives following Tuesday's announcement that the US would revive the punitive aspects of its trade provisions.

The US reinstated "Super 301," a measure which would give it authority to independently impose sanctions on countries that it believes have engaged in unfair trading practices. President Clinton has also indicated he might impose unilateral trade sanctions under Section 301, a US trade law that enables the government to increase tariffs or quotas.

"We are aware of the US concern but the (Japanese)trade minister and (US Trade Representative) Ms (Charlene) Barshefsky have been in close contact trying not to over politicise the trade issue," said Akitaka Saiki, deputy spokesman for prime minister Keizo Obuchi.

Japan's steel exports to the US have fallen sharply since November – down 14.9 per cent by volume in December compared to the year before according to the Japanese finance ministry. However, the nearly 300 per cent surge in the first 11 months of 1998 prompted calls for retaliatory action from US steel manufacturers.

Mr Sasaki reiterated the Japanese steel industry's position that the increase in exports last year reflected a surge in demand, particularly from US steel makers that could not meet orders on their own.

He maintained that the collapse in market prices was an inevitable result of the increased supply from both Japanese and US producers and the near-halving of prices for scrap metal in the US market.

However, he added that while prices did fall, Japanese steel makers did not ship steel at a loss. Exporting at prices below cost of production is one of the primary conditions in a dumping suit under international trade law.

Mr Sasaki said that the dumping suit had highlighted the need for restructuring at US steel mills. He said the Japanese steel market was very open to imports, but that US steel did not meet Japanese manufacturers' quality standards or delivery schedules.

Imports this year would fall to 1997 levels or below, Mr Sasaki said, echoing comments by Mr Yosano in Washington recently that he expected a significant decline in steel shipments to the US this year.

But he said the severe market conditions and the likelihood of further dumping cases – both from the US and elsewhere – had made a rapid reform of the bloated Japanese steel industry essential. With Japanese demand already at its lowest levels in nearly 30 years, the US economy heading for a downturn, and the strengthening of the yen against the dollar, Japan could no longer depend on export markets to raise profits. This would mean the demise of one or more of Japan's big five steel makers, he said.

Amazon eyes the unread and unheard

By Alice Rawsthorn in London

Amazon.com, the world's biggest internet bookseller and music retailer, is considering plans to launch Advantage, the US service whereby it sells the work of self-published authors and independent musicians, in Europe.

Having already destabilised the books and music retail sectors with its rapid expansion, Amazon now threatens to upset the balance of power within the publishing and music industries by developing Advantage internationally.

Amazon, which is still loss-making but announced earlier this week that it achieved annualised sales of $1bn in the fourth quarter of 1998, began business three and a half years ago selling books by mail order over the internet. It introduced music and videos to its product range last year.

Having begun by selling copyrighted material sourced from established book publishers, Amazon launched Advantage last March to enable aspirant authors to sell self-published work from its US site, alongside conventionally published titles.

Amazon saw Advantage as a way of extending its product range and of competing against the new wave of independent internet publishers. Patricia le Roy's *The Angels Of Russia*, a novel published by Online Originals, a UK electronic publisher, was accepted as a nominee, but not shortlisted, for the prestigious Booker Prize last autumn.

Advantage expanded in the US last November by selling compact discs from previously unrecorded musicians and independent record labels from the music section of Amazon's site thereby offering a similar service to online jukeboxes such as *MP3.com* and Internet Underground Music Archive.

Record companies are already alarmed that hot young acts will distribute through these jukeboxes in future rather than signing recording contracts. Advantage poses an even bigger threat because of the strength of Amazon's brand name and its large customer base.

Amazon declined to comment yesterday on the timing of Advantage's European debut. However, it is understood that the service could be launched in the US and Germany before the end of this year.

Asians urge US to share internet cost

By Michiyo Nakamoto in Tokyo

A group of eight Asian telecoms carriers are calling on US carriers to share part of the burden of internet traffic.

KDD, the Japanese carrier, Singapore Telecommunications and other leading carriers in the region have issued a statement calling it "inappropriate" for internet service providers and operators in the Asia-Pacific region to bear the entire cost of international internet traffic between the region and the US.

The carriers said that they were concerned that increasing demand for information from the Asia-Pacific region means that US internet service providers were "in effect free-riding on the circuits and gateways provided by the Asia-Pacific ISPs".

The costs of international telephone traffic is generally shared between the carriers of both the calling and receiving party. But for historical reasons this is not the case for internet traffic.

When use of the internet began to spread, foreign carriers initially wanted links to the US because information flowed mainly from the US to other countries and that led to the foreign carriers bearing the costs," according to a KDD representative.

However, information flowing from the US to Japan, for example, has risen steeply in recent years. For example, in 1996, information flow from the US to Japan was five times as much as that from Japan to the US. But last year it was only three times as much, he points out. KDD alone pays US carriers several hundreds of millions of yen in internet costs.

Between the Asia-Pacific region and Europe the costs are shared by the carriers at both ends. Generally, European carriers with links to the US also shoulder the entire cost of internet interconnection, although recent alliances may have altered that somewhat, KDD said.

The Japanese telecoms company appealed to the US Federal Communications Commission in May 1997 but has not yet received a response.

Indian software exports exceed 50% growth rate

By Krishna Guha in Bombay

India's software exports are growing at a blistering pace and are expected to reach Rs110bn ($2.6bn) this financial year, according to a new study by Nasscom, the industry body, released yesterday.

This will be the eighth consecutive year that India's software exports have grown by more than 50 per cent, the report said. Many companies are recording sales and profits approaching an annual rate of 100 per cent and have been rewarded with explosive stock market valuations.

Last year, India exported Rs65bn in software services, mainly to the US. More than 40 per cent of exports came from companies based in the four southern states of India – Karnataka, Andhra Pradesh, Tamil Nadu and Kerala.

The Nasscom report estimates that Indian companies could win up to $2.5bn in new contracts adapting computer systems to dates after 2000, on top of the $2bn already secured. The industry is also poised to bag $3bn contracts to convert systems to use the euro over the next three years. Nasscom hopes the Euro contracts will raise the low profile of India's software industry in European markets.

The report says Indian software exporters are building a reputation for quality. More than a 100 companies are accredited with the International Standards Organisation (ISO) or the Software Engineering Institute (SEI).

Offshore development projects account for an increasing share of business, while companies are investing in research, brands and marketing to enable them to export software products. But onsite work by Indian programmers paid by the hour or line of code – sometimes dubbed body-shopping – still accounts for 48 per cent of India's exports. This may come under pressure after the wave of year 2000 and Euro contracts recedes.

The Nasscom report says Indian software companies should look at the internet, e-commerce and off-shore business services as alternative fast growing export opportunities.

It also congratulates the government on the recent decision to liberalise internet service provision. India has only 172,000 internet subscribers – though it has 535,000 users. Nasscom estimates the number of subscribers will grow to 8m by 2002.

However, Nasscom says finance is still a big obstacle for many software exporters. India's banks insist on asset collateral before extending loans. The industry is also concerned about recent changes to US regulations. These include moves to force Indian companies to pay US salaries to employees working in the US on temporary assignments.

Little progress in talks on data protection

By Emma Tucker in Brussels

The European Union and the US yesterday made limited progress in talks to resolve a potentially devastating dispute over data protection.

But Mr David Aaron, US Commerce Secretary, said substantial hurdles still had to be overcome if agreement was to be reached ahead of the June EU-US summit.

"We have a lot of pressure on us. We have a lot to resolve," he said. Mr Aaron said extensive consultations with US business and industry had suggested a possible solution to the two critical areas of deadlock.

"We have made some progress towards resolving some differences that are still outstanding," said John Mogg, director general of the commission's single market directorate.

The EU and the US have been struggling to find a solution to the dispute over the EU's data protection directive since last summer but failed to do so before October when the EU's data protection directive came into force.

The directive empowers national EU data regulators to halt exports of personal data to countries which they judge do not have adequate protection arrangements. According to EU regulators, the US is one such country.

The lack of concrete results therefore raised the prospect of a serious disruption to trade between the EU and the US. So far, EU member states have not threatened to disrupt transfers of information, but officials fear action could be taken any day.

The main problems arise from European suspicions that the US's decentralised approach to data protection – a mixture of law, regulation and self-regulation – does not meet the standards of its new directive.

The US has proposed a system of "safe-harbours" for companies that agree to adhere to a set of principles. Each organisation subscribing to the safe harbour principles would be presumed to be providing adequate privacy protection.

Although the Commission recognises that self-regulation can provide effective protection, it does not believe that US arrangements for ensuring individuals have access to personal data held by companies are adequate.

The US, worried that companies could be plagued by exaggerated requests for information, has proposed that "reasonable access" should be granted. "Requests would be evaluated based on their importance to the individual, the ease of retrieval and the cost to the company. This would afford some safeguard against requests prompted by mere curiosity – or spite," Mr Aaron said this week.

Asia to Europe shipping rates rise

By Charles Batchelor, Transport Correspondent

Container shipping lines accounting for 60 per cent of Asia-Europe shipments plan to increase freight rates on westbound sailings by at least one-third this year.

The increase is to recoup part of the sharp decline in rates in recent years.

The lines are taking advantage of the rise in shipments from Asia to Europe in the wake of last year's Asian economic turmoil, which depressed local currencies and made exports more competitive.

The Asian economic turmoil cost the Far Eastern Freight Conference (FEFC) lines $300m in lost revenues in the 15 months ended December 1998 – $200m due to the need to ship and reposition empty containers and $100m in lost business.

The lines which make up the FEFC, including P&O Nedlloyd, OOCL, Hapag-Lloyd, Sea-Land, Mitsui OSK and Maersk, increased rates by $200 per 20ft container at the beginning of January and hope to add a further $150 in April, the conference said.

Further increases in westbound rates are planned

The lines are taking advantage of the rise in shipments in the wake of the Asian turmoil

for the second half of 1999. In a separate deal covering sailings from Japan to Europe, prices have also been increased by $200 per 20ft container. But while there will be no further increase in the first half of the year, prices may rise again in the second half.

Rates on eastbound sailings, from Europe to Asia, will not be increased because of the sharp fall in demand for Asian imports.

The FEFC lines expect a further 6-10 per cent increase in containers moving westbound, to Europe, in 1999, following the 17 per cent increase last year, though the eastbound volumes will remain unchanged after last year's fall of 18 per cent.

The sharp surge in Asian exports last year pushed capacity take-up on westbound vessels from 89 to 98 per cent. But the decline in Asian imports cut eastbound capacity use by 16 percentage points to 75 per cent.

The rise in westbound cargo volumes and the fall in eastbound shipments has disturbed the traditional relationship between the two flows and increased shipowners' costs.

Westbound volumes have traditionally exceeded those eastbound but the gap between the two rose from 500,000 containers in 1997 to 1.01m last year.

FEFC members are awaiting details of a ruling from the European Commission's competition directorate on the Trans-Atlantic Conference Agreement. This is expected to ban joint pacts between conference members on the land leg of international container movements.

HARD CURRENCY OUTFLOWS LOSS OF $541m IN A DAY

Brazil lifts rates to 35.5% as Real falls

By John Barham in São Paulo

Brazil yesterday raised interest rates to 35.5 per cent to help defend its currency, the Real, which has lost over one third of its value since the government scrapped controlled exchange rates on January 13.

Brazil has lost $8bn in hard currency outflows so far this month, losing $541m on Tuesday alone.

Economists said the higher interest rates, which had been increased three percentage points, held the currency steady at about 1.90 per dollar yesterday.

However, the central bank cannot increase rates significantly without swelling the government's budget deficit, already at 8 per cent of gross domestic product.

An economist at a big UK bank said each percentage point increase in interest rates boosted debt service payments on the domestic debt of R$320bn ($168.42bn) by R$2.5bn a year.

International rating agencies have warned of the increasing risk of a default on this debt unless the government manages to reduce interest rates.

This in turn depends on passage of deficit-reducing measures in Congress, also needed to comply with the conditions of a $41.5bn rescue package put together by the International Monetary Fund in December, weeks before the Real crashed. An IMF team has arrived in Brasília to begin talks with the government.

On Tuesday night, Congress approved two key deficit-cutting measures.

Senators voted through a tax on cheques which should raise about R$7.3bn this year and which is expected to be voted through by the Chamber of Deputies in March.

Legislators also approved a bill partly reforming the deficit-ridden state pension system.

It should raise R$2.5bn in 1999 and twice that in subsequent years.

Defeat in December of a measure increasing pension fund contributions from civil servants helped set the scene for the Real's devaluation in January as investors concluded the government would be unable fully to implement the IMF package.

The government intends to reduce its nominal deficit to 4.7 per cent of GDP this year. Many traders in local markets believe turmoil in the financial system will begin easing, now that the fiscal adjustment is largely in place, allowing interest rates to begin falling in May or June as the Real's exchange rate stabilises at about 1.6 per dollar.

● Stanley Fischer, deputy managing director of the IMF, cited the "pace of the Brazilian negotiations" as a reason for not attending a Senate subcommittee hearing on IMF reform yesterday, **Stephen Fidler reports from Washington.**

In a letter to Senator Charles Hagel, the subcommittee chairman, he said he needed to spend the day working "intensively" on Brazil with Michel Camdessus, IMF managing director, and consulting with the Brazilian authorities.

Tiial puts Senate and House at odds

Many Republicans want graceful exit from the impeachment. **Deborah McGregor** reports

The lash of impatience was subtle and senatorial, but unmistakable. Senator Richard Shelby, a Republican from Alabama, had had enough. His Republican colleagues from the other chamber – the House managers – had made their case for impeaching President Bill Clinton, and Mr Shelby, a seasoned legislator with a practical bent, felt it was time to wrap things up.

"If it were an airtight case... you'd probably have about 70, 75 senators lining up to convict," said Mr Shelby. "You dont see that." In the stark calculus of impeachment, the lack of 67 Senate votes to remove Mr Clinton from office has been one of the few known quantities in an otherwise tangled web of arcane rules and endless legal arguments.

Like a substantial number of Republicans in the Senate, Mr Shelby would like nothing better than to find a graceful exit. There is just one problem. Although many Senate Republicans are mindful of their own place in history, they are being forced to consider the legacy of their House brethren.

It was the House Republicans who voted to impeach the president. It is House Republicans who are now hyper-sensitive to any Senate move that might appear to repudiate their actions.

Such attention to legacy helps explain why, increasingly, Henry Hyde has been inserting catty musings about the Senate into his recent statements. Mr Hyde, chairman of the House managers, bridled early on at the Senate's insistence on being in firm control of its phase of the trial.

In the recent wrangling over witnesses, a clearly exasperated Mr Hyde complained that the original 10 to 15 witnesses sought by the House had been whittled down to "a pitiful three". He also sounded a bitter note about the need for senators to consult among themselves at every turn.

"I don't think this whole sad, sad drama will end, we will never get it behind us until you vote up or down on the articles [of impeachment]," Mr Hyde told his grim-faced senatorial audience during the recent debate over procedures. "And when you do, however you vote, we'll all collect our papers, bow from the waist, thank you for your courtesy, and leave, and go gently into the night."

Hyde: catty

Lott: instinct for order

Like relatives who have overstayed their welcome, House managers have been increasingly confronted with brooding senatorial stares and bored-looking jurors.

The creative tensions between the two chambers seem to increase with each passing day. "Some of those tensions result from the built-in differences between the House and Senate," said one congressional historian. "But some simply arise from the fact that the needs and interests of the House managers are not identical to the needs and interests of the Senate Republicans."

The built-in tensions have deep roots. The Senate's 100 lawmakers are elected for six-year terms and represent a broad constituency stretching across an entire state. In the eyes of many House members, senators seem arrogant, self-important and – worst of all – inattentive to the demands of the House.

The 435 members of the House of Representatives represent narrower constituencies and their two-year terms provide little job security, tending to attract flamboyant some senators would say unruly – legislators who are never far from the electoral guillotine.

Striving to keep the institutional rivalries in check is Trent Lott, the Senate Republican leader. Mr Lott, a 57-year-old Mississippian with impeccably neat hair, possesses a strong instinct for order, but so far he has had trouble imposing it. Almost half of his 55 Republicans are former members of the rambunctious House. Mr Lott himself served as the Republican House whip, responsible for rounding up votes, before moving on to the Senate.

Mr Lott is clearly trying to accommodate his House colleagues, mindful that Republicans' ability to push forward their legislative agenda depends on some semblance of House-Senate collegiality surviving the impeachment debacle.

However, he has also provoked the wrath of some party faithful outside Washington by refusing to force a conclusion to the unpopular trial. Mr Clinton's approval rating with the American public, after all, stands at a heady 72 per cent, while the popularity of the Republican Congress is the lowest in a generation.

NEWS DIGEST

COLOMBIAN EARTHQUAKE

Pastrana seeks international aid package

The Colombian government is trying to assemble an international aid package to help the survivors of a devastating earthquake which hit the country's coffee-producing region on Monday.

President Andrés Pastrana announced late on Tuesday that the government had requested $100m from multilateral lending organisations to provide relief for 180,000 people who have been left homeless.

The quake, the worst to strike Colombia in more than 100 years, has so far left 670 people dead and 2,505 people injured, according to official figures. Unofficial reports, however, insist the number of fatalities is as much as 1,000.

The worst affected area is the coffee producing town of Armenia, 190km from Bogotá. **Adam Thomson, Bogotá**

DOLLARISATION

'Not a quick fix' – Summers

Larry Summers, deputy secretary of the US Treasury, said yesterday that countries seeking to replace their currencies with the dollar could potentially derive large advantages from such a move, but stressed dollarisation would provide no short-term fix for economic difficulties.

Mr Summers said the choice of dollarisation was one "that countries will have to make, and certainly as they make them, it's one we are happy to consult with and talk to countries about the issues involved".

Dollarisation has been discussed as one possible response to the serial exchange rate crises to have hit emerging economies. A monetary treaty with the US to help Argentina to dollarise has been proposed by the central bank of Argentina. **Stephen Fidler, Washington**

FALKLAND ISLANDS

Argentina, UK 'in talks'

Argentina is holding confidential talks with British officials over the future of the disputed Falkland Islands, according to President Carlos Menem.

The talks were focusing on issues such as freezing Argentina's 165-year-old sovereignty claim in exchange for allowing the Argentine flag to fly in a limited number of locations on the islands, he indicated.

Freezing the claim would be a "very interesting, very significant step", Mr Menem said yesterday in an interview with the daily La Nación.

The interview comes amid a hectic series of international contacts by Guido Di Tella, Argentina's foreign minister, and growing unease among some islanders that a deal could be hatched between London and Buenos Aires.

Britain maintains that the islands' sovereignty is not negotiable and that no change in their status can take place without the islanders' express approval. However, British officials believe that resumption of direct links between the islands and the mainland will help guarantee their economic future. **Ken Warn, Buenos Aires**

US ECONOMY

Bankers predict more growth

The US economy will enjoy another year of robust growth with low inflation, keeping the Federal Reserve's monetary policy on hold for the foreseeable future, a group of leading private sector economists said yesterday.

The Economic Advisory Committee of the American Bankers Association said it expected growth in gross domestic product of 2.5 per cent this year and 2.4 per cent in 2000. Consumer prices were expected to rise by about 2 per cent in 1999 and 2.3 per cent next year.

But the committee, comprising the chief economists at the nation's largest banks, acknowledged considerable uncertainty in the forecast and warned that domestic and external factors posed both positive and negative risks to the outlook.

Wayne Ayers, the committee chairman and chief economist at BankBoston, paid tribute to the role of the Fed in steering the economy through the financial turbulence of the second half of 1998. The central bank cut short-term interest rates three times in two months last autumn in response to the turmoil in financial markets.

"At a time when it was sorely needed, the Fed provided both liquidity and confidence to financial markets," he said. **Gerard Baker, Washington**

On the web today

- Mexican state governor in drugs probe
- Pope's visit gives St Louis pause for thought
- Dismantling Microsoft internet software 'impossible'

http://www.ft.com/americas

ords over steel

unheard

Asia to Europe shipping rates rise

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IMF AGREEMENT DEAL MAY LEAD TO A FOREIGN DEBT RESCHEDULING AT A PARIS CLUB CREDITORS' MEETING THIS WEEK

Pakistan seeks to reschedule $7.7bn debt

By Peter Montagnon, Asia Editor in Washington

Pakistan aims to reschedule a total of $7.7bn in foreign debt in the wake of its latest International Monetary Fund agreement. The amount is substantially larger than previously suggested by officials because the deal will cover debt falling due up to 2001, not just this financial year.

The figures are included in a framework paper drawn up with the IMF which is due to be presented to government creditors meeting to discuss the rescheduling in Paris this week. Had Pakistan decided to reschedule only this year's maturities, it would have been looking at a deal worth just over $3bn.

The paper shows that Pakistan expects an external financing gap of some $19bn between now and June 2001.

In striking contrast to rescue packages for other countries, it has decided not to rely on an aggressive privatisation campaign to help meet its foreign exchange shortfall.

Bankers said this was because low international confidence in Pakistan would make it hard to sell state entities at reasonable prices. Pakistan has long aimed to sell some state assets, including a stake in its telecommunications company for which it has looked unsuccessfully for a trade buyer.

Instead it aims to raise the $19bn through other routes, including the rescheduling, and borrowings of $4.4bn from the IMF, World Bank, Asian Development Bank and other official creditors. Government-guaranteed project loans and grants are expected to amount to a further $4.4bn, while trade credits in connection with food imports should be $550m.

In addition the government expects to borrow $1.7bn on commercial terms, while a modest $1.3bn inflow is expected to come from private sector capital imports. If all these targets can be met the reserves should increase by $1.3bn to around $2bn by June 2001.

But bankers said some hard negotiations remain on the rescheduling of commercial debts. Official creditors are insisting the country's outstanding bond issues be included in the commercial debt rescheduling which is likely to complicate the negotiation.

The framework paper also underlines that a central thrust of the IMF programme is to reduce Pakistan's budget deficit which has become a serious drag on the economy. Weak revenue collection has been compounded by a rapid increase in repayment obligations.

● Farhan Bokhari adds from Islamabad: A Pakistani court ruled yesterday that the government's freezing of foreign currency accounts to minimise the effect of anti-nuclear sanctions was illegal and unconstitutional.

The verdict by the provincial high court of the Punjab followed months of popular criticism of the freeze, ordered just hours after Pakistan carried out its first nuclear tests last May. It was handed down in response to a petition filed by over 100 individuals.

The freeze was ordered by the government of Prime Minister Nawaz Sharif in anticipation of punitive western economic sanctions which it feared could trigger a run on the banks. It affected some $11bn which had been deposited since the country's exchange controls were relaxed in the early 1990s. Officials say that the equivalent of about $4bn has so far been withdrawn in rupees though about $7bn remains in the frozen accounts.

Indonesia clears way for free elections

By Sander Thoenes in Jakarta

Indonesia's parliamentary leaders yesterday resolved remaining differences over three political laws, clearing the way for the first democratic elections in 40 years.

The heads of the four factions hammered out complex last-minute compromises to allow a final vote on today's deadline, lifting fears that a deadlock would cause a delay in the June 7 vote.

While opposition parties cried "foul" over some clauses that appeared to favour the ruling Golkar party, most agreed it was a leap forward from the largely ceremonial polls under former President Suharto's rule.

"Whatever its shortcomings, it is a step forward," said Subagio Anam, a senior member of the opposition Democratic party of Megawati Sukarnoputri. "If there were no elections there would be civil war."

Parliament compromised on a mix of district and proportional voting, rather than a district system as proposed by the government.

Seats will be allotted proportionally but parties will have to field candidates in up to 324 districts to get on all the ballots, a tall order for many of the more than 100 parties that want to participate. Diplomats expected only 10-15 parties to run.

President B.J. Habibie solved a third dispute by decreeing that civil servants have to take leave of absence if they want to join a political party.

Before, civil servants were forced to support Golkar; opposition parties feared that would continue. The guaranteed seats for the powerful military were cut from 75 to 38, but this was still more than opposition parties had wanted.

Mr Habibie is expected to run against other candidates in a presidential election later this year, probably late October. The new president will be elected by parliament and 200 extra delegates, comprising 135 appointed by regional parliaments, and 65 representing social groups, most likely approved by parliament.

Thai premier Chuan Leekpai (left) is mobbed by reporters before the censure debate. The opposition party of Chavalit Yongchaiyudh (right) is targeting three ministers. AP

Thai censure debate will test whether economic strategy can be turned into reality

Will Chuan's government now limp to an election it might lose or sprint to one it could dominate? **Ted Bardacke** reports

It's "just symbolic", commented a Thai politician on the opposition's strategy in a censure debate that began yesterday against three leading government ministers. "But symbols can be very powerful in Thailand."

Without doubt and with its overwhelming majority in parliament, the government of Chuan Leekpai will defeat the censure motions when they are put to a vote tomorrow.

The symbols of the debate have already begun to frame the remainder of Mr Chuan's term in office and in turn determine the progress his key economic strategist – Tarrin Nimmanahaeminda, finance minister – can make in turning the expectations of economic recovery into reality.

So far, things are looking good for Mr Chuan's government.

Chavalit Yongchaiyudh, the opposition leader, convinced no one when, unable to match economic wits with Mr Tarrin, he claimed that during his own tenure as prime minister, the government had a secret plan to keep the International Monetary Fund out of Thailand by getting $10bn in unconditional cash from China.

Many observers doubt whether the other two ministers being grilled – Sanan Kachornprasart, interior minister, and Suthep Thaugsuban, communications minister – will be any further damaged by a parliamentary rehashing of allegations already in the public domain.

If the opposition arguments fall flat with the public, Mr Chuan's government should remain unassailable, at least until the end of the year, opposition politicians concede.

No more censure motions can be launched for the rest of the year, and the government can expend its political capital on pushing through the structural economic reform measures necessary to get the economy back on track, just in time to call a snap election from a position of strength.

Yet some members of the ruling Democrat party had glum looks on their faces as they went into the debate. They are worried about an entirely different possibility.

Mr Tarrin, who will be questioned today, is "vulnerable," says a Democrat party executive, explaining that although the government remains fully committed to the reform agenda the finance minister has laid out, public support for policies which have yet to have widespread impact is beginning to wane.

"The charges – that he favours the rich over the poor, the finance industry over the real economy, foreigners over Thais, and that he is just a pawn of the IMF – are not true.

"But they could resonate and make him a big target," a member of the executive committee said, citing drought, declining farm prices and still rising unemployment as factors that make people receptive to opposition claims.

More worrying for the government are new and detailed accusations against Mr Sanan, Mr Chuan's chief political operator and the number two man in the Democrat party.

In the debate last night, Mr Sanan had trouble defending himself against a number of charges, including allegedly profiting from an illegal increase in tollway fares. His grilling continues today.

A weakened Mr Sanan could have a severe impact on Mr Chuan's political strength and hence the economic work of Mr Tarrin, who is so effective because he has, for the first time in memory for a Thai finance minister, the complete backing of the prime minister.

In short, Mr Chuan's strength keeps Mr Tarrin out of the political turmoil into which many Thai technocrats have fallen.

Damage from the censure debate could even complicate the Democrat's internal elections, to be held in April. A big party shake-up, even the retirement of Mr Sanan, cannot be ruled out, providing a further distraction to the ruling party's ambitious legislative agenda.

That agenda, which will set the ground rules for much-needed restructuring of the country's corporate debt and give struggling banks the impetus to begin lending again, is at present stalled in the Senate, and economic recovery is unlikely without it.

A strong Chuan government will be able to force the Senate's hand; a weak one will face more delays, an economy that continues to wither, and growing calls to hold an early election before recovery begins.

"The best political timing [for the government] for an election seems in the fourth quarter, when a modest economic recovery is expected to be under way," says Supavud Saicheua, strategist at Merrill Lynch Phatra Securities in Bangkok. "But factors working against the government will be strongest in the first half."

So, does Mr Chuan's government limp towards an election it might lose, or sprint to one it could dominate?

As one Democrat parliamentarian said: "That depends on how we stand our ground this week."

China tries to allay foreign fears on Itics

By James Kynge and James Harding in Beijing

China yesterday set out to allay the anxieties of foreign creditors over its troubled international trust and investment companies, even as the possibility of a second Itic bankruptcy grew.

Dai Xianglong, governor of the central bank, announced measures that would enable the Itics to meet their foreign debt obligations, which he said were far smaller than had previously been estimated.

At the same time, it was reported that Guangzhou International Trust and Investment Corporation (Gzitic), the fund-raising arm of the capital city of southern Guangdong province which has already defaulted on overseas loans, could be pushed into bankruptcy.

The future of China's 239 international trust and investment companies has been in question since the sudden closure last year of Guangdong International Trust and Investment Corporation (Gitic).

The collapse of Gitic, which this month filed for bankruptcy with debts of US$4.37bn, mostly to foreign creditors, has prompted an international credit squeeze on Chinese borrowers, particularly Itics.

Mr Dai yesterday played down the problem in the trust and investment sector. The Itics have total registered external debts of only $8.1bn, of which about $2bn were short-term borrowings, he said.

Analysts said that Mr Dai's figures appeared conservative and probably did not include unregistered lending, which is believed to be considerable.

Itics would be able to change renminbi, the Chinese currency, into foreign currency to help them repay those foreign debts in their portfolios which are "registered and legitimate".

Analysts said this provision could help the Itics survive an intensifying credit squeeze which has meant that many cannot secure short-term loans from foreign creditors, rendering them unable to service longer-term debts.

Mr Dai also sought to offer the foreign lenders to Gitic some succour, by suggesting that they might together work out a debt restructuring.

Although Mr Dai offered no details, he seemed to be willing to consider a creditors' work-out that could reduce the scale of banks' losses.

Meanwhile, doubts grew over Gzitic after a vice-mayor of Guangzhou was quoted as saying that the municipal government would support the city's Itic but could seek bankruptcy if the company was too far in the red.

Under Gzitic's own accounting, it is solvent with assets of about Rmb20bn (US$2.4bn) and foreign debts equal to Rmb19bn, but doubts remain that the audit has understated the real amount of foreign debts.

The Itics account for a relatively small amount of total lending in China, but represent the conduit through which much foreign investment entered the economy, particularly in the early 1990s.

Mr Dai confirmed that the trust and investment sector will be restructured, but said that only a small proportion will be shut down.

NEWS DIGEST

EMERGENCY USED TO PUT OFF POLLS

Sri Lankan president censured by court

Sri Lanka's supreme court yesterday censured President Chandrika Kumaratunga for using a nationwide state of emergency to put off indefinitely local elections the opposition claimed it was set to win.

A three-judge bench said the president had acted against the constitution in cancelling elections scheduled for August 28. The court also censured Dayananda Dissanayake, in charge of the elections, and ordered him to stage them in the central, north-central, western, Uva and Sabaragamuwa provincial councils within three months.

The censure compounded allegations of large-scale vote rigging at another provincial election in the north-west of the country where the ruling People's Alliance of President Kumaratunga captured the council. Independent poll monitors reported that Monday's election was highly fraudulent but government ministers promptly accused the monitors of being in the pay of opposition activists.

Mrs Kumaratunga had cited security concerns in postponing the elections to five councils in August, but went ahead with the vote in a sixth council as rights activists and opposition groups challenged the postponement for the first five. **Amal Jayasinghe, Colombo**

ANWAR BEATING

Mahathir appoints commission

Mahathir Mohamad, the Malaysian prime minister, gave in to public pressure and announced yesterday that he would appoint a commission to investigate the beating in police custody of his former deputy prime minister, Anwar Ibrahim.

Rahim Noor, inspector general of police, resigned after a months-long inquiry concluded that Mr Anwar was beaten by police, but no individual police officers have been held responsible.

Mr Mahathir had originally suggested that Mr Anwar's injuries of a black eye and bruises, visible on emerging from days of incommunicado detention, may have been self-inflicted. Mr Anwar insisted he was beaten unconscious the night of his arrest last September. It was not until several weeks ago that the attorney-general announced the police were at fault.

Reports yesterday said the panel being formed would comprise two former judges and a medical doctor.

Mr Mahathir sacked Mr Anwar for being "morally unfit" and his former heir apparent and political rival has since been charged with sodomy and abuse of power. Mr Anwar insists he is being framed for challenging Mr Mahathir's reign. The treatment of Mr Anwar has divided the nation, splintered Mr Mahathir's ruling Umno party, and tainted his administration. **Sheila McNulty, Kuala Lumpur**

TWO CHINAS BATTLE

Taiwan in link with Macedonia

Taiwan yesterday established formal relations with Macedonia, scoring a minor victory in its struggle to avoid being forced into diplomatic isolation by mainland China.

The foreign ministers of Taiwan and Macedonia signed a communiqué on the establishment of ties at a ceremony in Taipei, bringing the number of nations according the island diplomatic recognition to 28. The Vatican had previously been Taiwan's only diplomatic partner in Europe.

Macedonia said it wanted to retain its diplomatic ties with mainland China – a hope almost certain to be dashed. China's communist government has considered Taiwan a rebel province since rival nationalist forces fled to the island in 1949 and Beijing refuses to maintain relations with any nation that has formal links with Taipei. **Mure Dickie, Taipei**

ECONOMY FEARS GROW THAT SEOUL IS BECOMING COMPLACENT OVER NEED FOR FRESH REFORMS

Hidden dangers of South Korean recovery

By John Burton in Seoul

Optimism that South Korea is recovering from its worst recession in 45 years runs the risk of producing an unwanted side-effect. Analysts worry that the government officials are becoming complacent and may ease pressure on reforms.

There are plenty of reasons for Seoul to cheer, and the decision this week by Standard & Poor's to upgrade South Korea to investment grade is one of them. The currency, the won, is growing stronger against the US dollar after losing half its value. Interest rates are sharply down to 3 per cent in real terms. Korea enjoyed a record trade surplus in 1998 and its foreign exchange reserves are bulging after being nearly depleted a year ago.

Foreign investors have flocked to the Seoul stock market, which was the world's best performing bourse last year. "The recent surge of stock prices is not a bubble. It is a reflection of investor's optimism about the prospects of real economy," said Lee Kyu-sung, the finance minister. The central bank predicts 1999 growth of 3.2 per cent against a contraction of nearly 6 per cent last year.

But the sudden euphoria may be misplaced. "My fear is that little is being done to improve Korea's global competitiveness. The emphasis is still on economies of scale and stock-based industries rather than developing high-tech businesses," said a US investment banker who advises Seoul.

There are doubts about the restructuring of the big conglomerates, or chaebol. Although chaebol have agreed to merge troubled businesses in the car, semi-conductor and petrochemical sectors, there is still resistance to close surplus factories and reduce bloated workforces.

High corporate debt levels are coming down, but that is due more to asset revaluation and rights issues to improve financial statements than selling assets to repay loans. Although Korea attracted $8.8bn in direct foreign investments last year as some companies were sold, "my feeling is that the window of opportunity is closing," said a big US investor. The chaebol see little reason to sell assets due to the government's aggressive cuts in interest rates.

The expected economic recovery appears to rest on fragile foundations. The government has resorted to easing fiscal and monetary policy to support growth and curb bankruptcies. But industrial production remains weak along with consumer confidence, with growth likely to come from restocking of inventories.

Goldman Sachs predicts consumer spending will fall 5.4 per cent in 1999 after dropping by 11.6 per cent last year because of continued worries over job losses and wage cuts. "From a sovereign risk perspective, poor growth prospects argue against upgrading towards investment grade," said Barclays Capital.

Unemployment is on the rise to 7.9 per cent and might reach 10 per cent this year as exports falter due to an expected slowdown in the global economy.

The spectre of 2m jobless and the potential for social unrest has been a big reason why the government appears reluctant to force job cuts as it concentrates on winning crucial parliamentary elections next year.

HK probe points at Chan over airport chaos

By Louise Lucas in Hong Kong

Blame for the chaotic opening of Hong Kong's US$20bn new airport was handed out to senior government officials in a second inquiry released yesterday, but they escaped any sanctions.

The report says Anson Chan, chief secretary, must take full responsibility "to the extent that she neglected or ignored advice, or placed on it the wrong weight".

Unlike the government probe, which was released on Friday and pinned the blame firmly on the Airport Authority, the report compiled by legislators also found fault with the body set up to monitor it.

The July 6 opening of Hong Kong's state of the art new airport was a catalogue of disasters: missing baggage, passengers trapped in aircraft, and a growing mountain of rotting cargo that prompted the main cargo handler to move back to the old airport.

Legislators said the spectacle made Hong Kong a laughing stock, and a series of inquiries were launched: one by the government, which was released last Friday, the legislators' report, and a third by the ombudsman, which was submitted to the chief executive on Tuesday.

Tung Chee-hwa, chief executive, yesterday offered a rare apology for the chaos, but stopped short of holding any of his officials responsible. Mrs Chan for her part said she was puzzled at being singled out as the opening date was reached by consensus.

The Airport Development Steering Committee (Adscom), which escaped heavy blame in the first report, was roundly criticised in the legislators' findings. Adscom had a supervisory role, and was chaired by Mrs Chan.

Adscom had the "most direct role in safeguarding the overall public interest, including economic interest and Hong Kong's prestige," the report said.

As in the earlier probe, the Airport Authority is found lacking in several areas, and Henry Townsend, its chief executive officer, is again singled out for poor management and leadership.

NORTHERN IRELAND BLAIR ACCUSES CONSERVATIVES OF ABANDONING BIPARTISAN APPROACH

Move to halt jail releases fails

By John Murray Brown in Dublin

Tony Blair, the prime minister, yesterday accused the Conservative opposition of abandoning the bipartisan approach to Northern Ireland and being "dragged along" by opponents of the historic April 1998 peace agreement.

As the House of Commons held a debate on the early release of paramilitary prisoners in Northern Ireland, Mr Blair said: "True bipartisanship is not about talking about it, it's about delivering it."

A Conservative motion, calling for a halt to early releases until violence ceases, was eventually defeated by 343 to 141, a Government majority of 202.

Several leading backbenchers in the governing Labour party had joined the Conservatives in calling for a halt to releases until "punishment attacks" by republican groups and their "loyalist" rivals ceased.

Vincent McKenna, spokesman for the Families against Intimidation and Terror, had earlier held a press conference in Westminster with William Hague, the Conservative party leader, whom he described as "the champion of victims". He dismissed suggestions that the move could undermine the peace agreement. "If people are lying on the ground with six bullets in their back then that is a breach of anybody's ceasefire," said Mr McKenna.

Andrew Mackay, the chief Conservative spokesman on Northern Ireland, said: "We are passionately in favour of the process and the agreement actually working, but the agreement is not working at the moment because paramilitaries who signed up to it on both sides of the sectarian divide are not abiding to the agreement by not decommissioning their arms and by increasing activity on the streets."

Mo Mowlam, chief Northern Ireland minister in the UK government, said such beatings "have gone on for 30 years, they are not going to stop overnight".

The dispute in London over paramilitaries came as the body of a self-confessed former Irish Republican Army activist was found near the border with the Irish Republic. Eamon Collins, who had exposed the IRA's brutal methods in a recent book, had head and facial injuries.

Hopes of an early move on arms decommissioning were dealt a blow yesterday when the international commission set up to oversee the destruction of paramilitary arms was told by one of the loyalist paramilitary groups that the political climate was not yet right for a handover to begin.

Billy Hutchinson, who was appointed to liaise with the decommissioning body on behalf of the banned Ulster Volunteer Force, called on politicians "not to let this thing go because this is the only opportunity to take all of the weapons out of society and we will never get another opportunity."

Editorial comment, Page 13

Farming lobby praises euro-zone benefits

By John Willman, Consumer Industries Editor

British farmers and food processors could be sidelined in the rationalisation of the European food industry if the UK remains outside the single currency, the National Farmers Union warns in a study of the impact of Emu on the sector published today.

The NFU says farming and food processing businesses inside the euro-zone are likely to find it easier to cut costs and achieve economies of scale than those left outside the single currency. This could leave the UK food industry at a disadvantage as trade liberalisation increases competitive pressures in its home market.

The NFU is pressing the UK government to switch to euros for payments to farmers under the EU Common Agricultural Policy as soon as possible. This would give them a euro-denominated income that could help in taking advantage of cost-savings inside the single currency.

But Siôn Roberts, NFU chief economist, believes the UK industry – which is relatively efficient in many sectors – needs to be intimately involved with the restructuring which is already under way in continental Europe. There is a danger, he said, of complacency after the smooth introduction of the euro.

"The liberalisation of trade forces us to look for economies of scale to match those of US producers," he said. "Food processors across Europe are already merging across borders. If we stay outside that process, it will be another nail in the British industry's coffin.

"The euro is not just another foreign currency. It is a real change in the business environment for the agri-food industry throughout Europe. If the UK remains outside the single currency for too long, our companies may not be part of the bigger EU agri-food industry that emerges."

Mr Roberts said the euro will make it easier for businesses throughout the food chain to cut the cost of supplies, for example, by being able to take advantage of different countries' prices.

Shrug of indifference, Page 23

NEWS DIGEST

ELECTRICITY INDUSTRY

Generators accused of manipulating prices

Callum McCarthy, the newly appointed energy industry regulator yesterday accused electricity generators of manipulating electricity prices at the expense of customers. He said wholesale prices in December were £90m ($148.5m) higher than they should have been as a result of "gaming" in the electricity pool which acts as a clearing house between generators and customers.

His comments were welcomed by industrial customers but stunned power producers who accused the regulator of undermining good relations with the industry. Mr McCarthy is a former chief executive of Barclays Bank's north American operations. Mr McCarthy said: "Participants are manipulating the rules of the existing pool for commercial ends which have no economic justification. Such behaviour is not only unfair to customers, it brings all concerned with the pool into disrepute."

The regulator said he was considering altering the terms of generators' operating licences in a bid to stamp out the practice. He would also consider making earlier than expected changes to pool trading arrangements.

The Energy Intensive Users Group, whose members include ICI, British Steel, Castle Cement and BOC, said: "Industry will be delighted at the stance taken by the regulator." **Andrew Taylor, London**

'ARMED GANG' CHARGES

Five appear in Yemen court

The trial of five men, of whom four are British passport holders and one has dual British-Yemeni nationality, opened yesterday in the southern Yemen port city of Aden and was adjourned until Sunday. The five are accused of "association with armed gangs with a criminal plan to commit murder". A sixth member of the group, arrested in Aden on December 24 allegedly with grenades and explosives, is is thought to be of Algerian or Mali origin. If found guilty, all six could face up to 10 years in prison.

Three more holders of UK passports were arrested in Yemen later yesterday. They are suspected of links with the men who went on trial earlier. The state news agency SABA said the three included two alleged members of an Islamic militant gang that kidnapped 16 western tourists last month. Four tourists died when government forces tried to free the hostages.

The UK Foreign Office rejects the claim by the Yemen government that the men whose trial began yesterday were sent to Aden to "destabilise" Yemen at the instigation of a London-based Egyptian-born cleric, Abu Hamza al-Masri, with the prior knowledge and tacit consent of the British government. **Robin Allen, Abu Dhabi**

IT SKILLS SHORTAGE

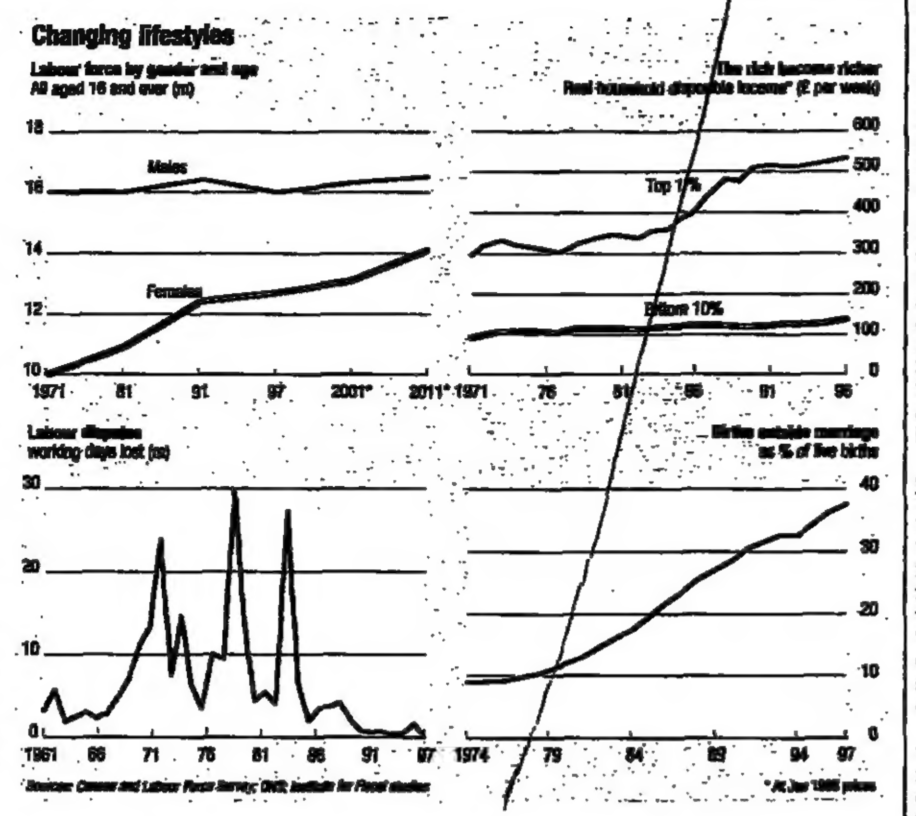
Ex-officers to be recruited

ICL, the UK computer services offshoot of Fujitsu, is attempting to solve the information technology skills shortage by recruiting former officers from the armed forces. "They are perfectly suited to be IT project leaders," said Ian Hardacre, ICL's managing director of IT services. The company is seeking some 25 former officers in its current recruiting drive, which aims to attract at least 500 new consultancy systems and project management personnel. The business employs more than 2,000 staff. The decision to seek more senior officers follows the successful recruitment of five former officers last year. John Turnbull, a former captain in the First Royal Tank Regiment, who joined ICL after being in charge of 75 men and 12 tanks, said: "The skills one learns as an army officer are very transferable to IT project leadership."

IT companies have been experiencing severe difficulties in recruiting staff to cope with the explosion in demand for integration services. **Christopher Price, London**

National snapshot shows a country divorced from past

From the trivial to the significant, a host of differences are revealed by annual trends survey, **Deborah Hargreaves** reports



British life has changed markedly from the days of empire, bowler hats and a stiff upper lip. Modern Britain is a nation where more people get divorced and women have their first child later in life than before. The number of couples living together without marriage has tripled in the past 30 years. Many more women work outside the home.

More Britons than ever have forsaken the country's wind-blown holiday resorts, and head for sunnier climes overseas for their holidays. Another marked change is that far fewer go to church than 30 years ago. Health worries mean that Britons eat half as much butter as in 1984 and much less beef.

A portrait of vast change in many aspects of British life is painted in the latest Social Trends survey, the annual government snapshot of the nation which was published yesterday. It lists changing lifestyles, employment and population trends from important shifts in demography to the trivial and bizarre.

For example, it now takes 11 minutes to earn enough money to buy a dozen eggs in Britain today compared with 21 minutes 27 years ago. The government's statisticians have calculated that Spain, Greece and Portugal will appear cheap to a UK citizen while northern European countries will seem more expensive.

Families are smaller: the average size of households in Britain has halved since the beginning of the century to 2.4 people. This has led to a big increase in demand for housing and pressure on rural sites.

The proportion of "traditional" families consisting of a couple with dependent children has declined to 23 per cent compared with 38 per cent in 1961. The number of lone parents with children trebled to 7 per cent.

Lone parenthood has been increased by the high divorce rate which has more than doubled since 1970: one in four children experiences divorce before the age of 16. But more women are choosing to give birth without living with a partner and although the incidence of births to teenage mothers is falling, it remains high compared with other countries. Jack Straw, home secretary, provoked outrage this week when he called on teenage single mothers to give up their babies for adoption.

The number of women in the workforce has risen to nearly three-quarters of all 25 to 44-year-olds. This has coincided with a decline in the number of older, working men – 91 per cent of those aged between 45 and 55 are in employment, down from 98 per cent in 1971.

Industrial disruption, the once-notorious "British disease" that began to decline during the premiership of Margaret Thatcher, has almost disappeared. The number of working days lost through labour disputes in the UK in 1997 was the lowest since records began in 1891.

Britons are living longer, but their later years are often not healthy ones. The report shows life expectancy is rising every decade by about two years for men and 18 months for women. "However, these extra years of life may be spent with a mild to moderate disability," notes Carol Summerfield, one of the report's authors. About a third of the population develops cancer at some time.

Life expectancy in the UK is over 74 years for men and 79 years for women. In other parts of the world, this varies considerably with Africa showing the lowest life expectancy of 52 years for men and 55 years for women.

Women born in 1937 had an average 1.9 children before they were 30, while those born in 1967 had just 1.3. There has also been greater use of fertility treatment – three times as many treatment cycles were carried out in 1996 as in 1990.

The gap between the richest and poorest households has stabilised in the 1990s after widening in the 1980s, but the real household disposable income of the poorest tenth is only a quarter of those in the top tenth. Inequalities in wealth are more marked, with the richest 10 per cent owning half the total marketable wealth.

Britons take nearly seven times the number of overseas holidays than in 1971 with Spain the most popular destination. Leisure time is spent watching TV, going to the pub and supporting soccer teams. Women are much less likely to spend their time sewing or knitting than 20 years ago, but more likely to do the gardening or home improvement.

THE ECONOMY SAGGING GLOBAL DEMAND OFFSETS EFFECTS OF RECENT FALL IN STERLING

Trade deficit widens further

By Christopher Adams, Economics Staff

The UK's balance of trade with the rest of the world has deteriorated further. Official data released yesterday showed sagging global demand has more than offset the effects of a recent fall in the pound, signalling a need for further interest rate cuts.

The trade deficit in goods widened in November from £1.64bn to £2.18bn ($2.7bn to $3.6bn) the second biggest in nearly 10 years, said the Office for National Statistics.

Although evidence has pointed to an improvement for manufacturers dependent on overseas markets, after a fall of 8 per cent in the trade-weighted value of sterling since April, competitive pressures remain immense.

Dwindling volumes to the crisis-hit economies of south-east Asia compounded the effects of a strong pound on Britain's manufacturers for much of last year. Exports to the region sank nearly 30 per cent in 1998 from £16bn to just under £12bn. Overall, the UK's trade deficit with non-European countries jumped to a record £15.7bn in the year to December.

Brian Wilson, trade minister, conceded that concern at the widening deficit. But he said the trade gap size was in line with projections in November's pre-Budget report. At just over 1 per cent of gross domestic product, the deficit remained modest by historical standards, he said.

However, economists predicted that the position would worsen. "With the slowdown in the world economy likely to continue, export volumes growth is likely to remain very weak," said Dharshini David of the HSBC banking group. Including a £1.1bn surplus for services, comprising "invisibles" such as financial services, the trade deficit widened from £0.5bn to £1.1bn in November.

The pound was unaffected by the depressed data, slipping slightly to $1.651 against the dollar.

● The government is on course to meet its borrowing and spending targets even if the economy "flirts with recession" this year, according to an influential report published yesterday, Richard Adams writes. In its authoritative Green Budget, the independent Institute for Fiscal Studies concluded that Gordon Brown, chancellor of the exchequer, will meet his own "golden rule" of only borrowing to invest, and keeping public sector debt to 40 per cent of output, despite expecting the economy to slow well below the Treasury's own forecast.

The report, produced by the Institute and Goldman Sachs, the investment bank, expects negative economic growth during the first half of this year to pull annual growth rates down to 0.4 per cent. That is less than half the level assumed by the Treasury in November when it made its most recent fiscal forecasts.

But the government's strong fiscal position will allow it to weather the short recession being predicted by the Green Budget without threatening national fiscal targets.

Police access to IT codes urged

By John Mason, Law Courts Correspondent

Police must be given powers to access computer "encryption keys" to prevent criminals gaining an advantage by using sophisticated scrambling technology, the head of the UK's National Criminal Intelligence Service believes.

John Abbott, director-general of the NCIS, told reporters in London the UK government must resist pressure from business not to give law-enforcement agencies the right to have access to encryption keys.

Encryption technology, which codes or scrambles information passed through computers, is widely seen as crucial to the development of electronic commerce. A debate is being held between business and governments worldwide over how tightly the technology should be regulated.

The NCIS is concerned at efforts by business in some countries to pressure governments into minimising regulation to prevent stifling of electronic commerce.

Mr Abbott said: "The encryption issue is one of the most important ... facing law enforcement throughout the world. It has massive implications for our ability to combat every threat to national security." He added that people in law enforcement agreed that the widespread use of robust non-recovery encryption by criminals could "damage our ability to fight serious and organised crime".

FOOD STANDARDS AGENCY

Businesses attack levy plan

Small businesses yesterday attacked government proposals to charge a flat rate annual tax of £90 ($148.50) on food outlets to pay for the planned food standards agency. Tony Blair, prime minister, sought to play down controversy about the levy by comparing it to the weekly cost of buying a hamburger. However, the Association of Convenience Stores said its members were already struggling to compete and another drain on profits could force some into insolvency. The tax would affect 175,000 retailers and 340,000 caterers.

The government defended the decision to charge supermarkets the same amount as kebab shops. Frank Dobson, health secretary, said: "Quite a few people who run kebab shops are likely to require the services of the agency." Nick Brown, agriculture minister, said the agency would be a "well-informed, independent, powerful voice for the consumer".

The government promised the agency as a response to the BSE or "mad cow" crisis and the e coli outbreak last year in Scotland. The tax is designed to raise £40m a year to cover the start-up costs of the agency and some of its running costs. **Andrew Parker; John Willman, London**

RENEWABLE ENERGY 'RELATIVELY MODEST SUPPORT' WOULD HELP UK COMPETE WITH US, JAPAN AND GERMANY

Solar sector seeks $33m government boost

Going up: market for solar power

By Vanessa Houlder in London

The UK solar energy industry has asked the government for a ten-fold increase in government assistance to help it build a domestic manufacturing base and compete with US, Japanese and German suppliers.

"The UK is well placed to move into a leading position in the world market, given relatively modest government support," said the British Photovoltaic Association (PV-UK), whose 42 corporate members include BP Solar and Pilkington Technical Glass.

It argued, at a meeting of parliament's renewable energy committee, for £20m ($33m) of financial support to build the market for solar cells, the semiconductor devices that turns the sun's radiation into electric current. At first sight, the industry's case appears unpromising. In spite of a five-fold fall in prices over the past 20 years, solar energy is still prohibitively expensive for most applications at 20 pence (33c) to 30 pence per KWh.

The UK's variable and meagre sunshine record and the availability of more advanced sources of renewable energy, such as wind power, means that even the PV-UK believes that solar's potential is limited to a few per cent of the nation's energy needs.

Currently, the UK has only one major supplier that manufactures in the country – Intersolar, employing fewer than 400 people and responsible for about 1 per cent of the world market for solar cells.

But the industry points out that leading UK companies, such as Pilkington Solar and Shell, have already achieved a 10 per cent share of the £1bn world market.

However, this strength is not translated into UK jobs since most production takes place in countries such as Spain, Germany and Australia where there is a substantial government-stimulated home market or manufacturing costs are low.

Even though the PVUK acknowledges that most of the opportunities for UK photovoltaic companies arise from exports, it argues that it is important to establish a buoyant home market to encourage manufacturing in the UK and provide a showcase for British expertise.

In a strategy for boosting the home market, which has been submitted to the government, it says there is a need for:

● Public awareness through developing high-profile examples of solar power in prestigious UK buildings.

● An allocation of part of the £100m annual fossil fuel levy to solar power.

● An increase in state support for research and development from £1m to £8m a year. The industry's case for government support lies in estimating that if it achieved a 15 per cent market penetration by 2010, it could create employment for about 19,000 people and turnover for UK companies of about £1.2bn. Its arguments are based on a projection of a strong rise in demand for photovoltaic technology, as concern about global warming prompts a move away from fossil fuels. It estimates that within two decades, solar power could become competitive with other sources of electricity.

Bernard McNelis, chairman of PVUK and managing director of IT Power, a consultancy, is convinced that UK companies stand a good chance of capturing a significant share of this expanding market, if they can build on a strong domestic base. He is unabashed about arguing for government help: "There is potential for so much growth that it is a special case," he says.

هكذا من الاجل

CINEMA

A Bard with zealous charm

But should Shakespeare's love life be straightened out? asks **Nigel Andrews**

Charm is usually an involuntary attribute. As soon as the owner knows he has it he risks losing it. He plays to his listeners: he gives out artificial personality wattage where before all was nature and incandescence.

In rare cases, though, trying too *hard* can have its charm. *Shakespeare In Love* goes endearingly mad striving to beguile and amuse us. In a Toytown Tudor England quarried from Shepperton Studios, Joseph Fiennes's doe-eyed matinee idol of a Bard unblocks his stymied imagination in the middle of a play project called "Romeo And Ethel, The Pirate's Daughter" – a joke (and not the film's best) – by falling in love with Gwyneth Paltrow as the Lady Viola De Lesseps.

SHAKESPEARE IN LOVE
John Madden

VERY BAD THINGS
Peter Berg

TWO GIRLS AND A GUY
James Toback

STEPMOM
Chris Columbus

This aery blonde eyeful looks so like Tilda Swinton's Orlando, especially as dressed by costumier-in-common Sandy Powell, that we are hardly surprised when she woos Bill back by slipping in and out of drag, as the doubleted, hosed and moustached auditionee who wins the main role in a *Romeo and Juliet* that has suddenly found its correct plot and title.

To complicate matters, Paltrow's gold-digging fiancé Colin Firth is mistakenly jealous of Rupert Everett's Kit Marlowe – resulting in a headline-snatching tavern murder – while more derring-do is sprung by the rivalry between the Curtain and Rose theatre companies, respectively fronted by the teams of Marlowe and actor Richard Burbage (Martin Clunes) and Shakespeare and actor Ned Alleyn (Ben Affleck).

Meanwhile – keep up, we're almost there – Geoffrey Rush (cockney lisp and decaying teeth), Simon Callow (beard and bluster) and Tom Wilkinson (simmering gently before boiling) prop up the plot as moneymen or masters of the Queen's revels.

Being directed by John Madden of *Mrs Brown*, the film insists on having Judi Dench as the monarch *du jour*. So the great Dame thrice freezes the film into semi-greatness simply by standing there, a Queen Bess pasty-phizzed, fierce-wigged and coruscating of glance. Madden may also have insisted, less happily, in having *Mrs B's* cameraman Richard Greatrex, whose tele-trained eye is good in interiors but reduces outdoor scenes to a bland, grainy wash.

Thus with the whole movie. When left to the main actors it is fizzing, funny and focused, with screenwriter Tom Stoppard injecting brio into the original script by Marc *Waterworld* Norman. (The "Present from Stratford-on-Avon" tea mug joke is a gem.) The next moment the film is more like *Waterworld*: oceans of plot, intrigue and epochal atmosphere, surfed inchoately by a surfeit of supporting characters.

Yet even here charm can come, and does, from excess zeal. The overbusy background also provides a perfect foil for Fiennes and Paltrow. The one is an actor whose combination of deep-set midnight eyes and choked-voice shyness – like brother Ralph he denotes emotion by cracking syllables into gentle appoggiaturas – is exotic enough to seem natural in an Elizabeth tunic. The other is an American who toys coquettishly with her English accent – "I will have poetry in my life, and adven-chuh!" – while playfully ransacking the vocabulary of sex appeal from D for demure to V for vampish.

Meanwhile there are in-jokes for the intelligentsia, including the glimpse of a young mouse-torturing John Webster, and broader stuff for those who go along in hope of a "Carry On Shakespeare." ("How long has it been?", "A goodly length"... etc).

My only major carp is with the suitable-for-schoolkids straightening out of Shakespeare's love life. Didn't Mr W.S. once have something going for a Mr W.H? Isn't this film doing the opposite of "outing" him? And from such a precedent should one not fear for the anodynisation of cultural history? Take care that the new millennium does not bring us "Wilde In Love", starring Gwyneth Paltrow as Lady Alfreda Douglas, the love that has no problem speaking its name; or "Sweet Sistine", the tale of a red-blooded Italian artist and the girl, or girls, who made all those sculptures and ceilings possible.

There is a new category of exciting actor in Hollywood today: the ex-convict. Robert Downey Jr and Christian Slater are both graduates of America's penal system, drugs-arrest division, and star respectively in *Two Girls And A Guy* and *Very Bad Things*.

In the latter, a broad black comedy about four Slater-led pals accompanying a soon-to-be-married fifth to a Vegas stag weekend that ends with a prostitute and security guard's murder, an entire early scene is devoted to the spectacle of men hoovering cocaine up the nose. As a non-cokehead I find this narcotic habit intriguing. Does it explain why everyone in Hollywood these days has a catarrh? Does it explain why this movie's five main males, after Vegas, run around like headless chickens auditioning for a bad slapstick comedy?

Of course no one involved in this first feature written and directed by actor Peter Berg, of *The Last Seduction*, would actually have taken cocaine during working hours (my lawyer asks me to point out). But the mere thought or memory of such an adrenal buzz might have sabotaged their moral and comic sense, dissolving the incongruity between two gruesome killings – an Asian and a black, to boot – and much mugging later on of a differently gruesome, would-be mirthful kind.

By contrast, if Robert Downey acts as well as he does thanks to narcotic assistance, who would discourage him? Screenwriter and sometime director James Toback (*The Gambler*, *Fingers*, *Bugsy*) fashioned *Two Girls And A Guy* especially for Downey. It is a three-handed encounter session between a lying actor and two deceived girlfriends (Heather Graham, Natasha Gregson Wagner) who ambush him one day in his trendy attic flat.

It is nought but talk, barring one semi-graphic sex scene, but the talk is good, notably one uproarious Downey aria at once explaining and compounding his history of lies. So is the *way* the characters, and chiefly the protagonist, talk. As he showed in *Chaplin*, Downey moves with the designer anarchy of a skilled mime. Loose yet controlled, like a puppeteered rag doll, he can posture and grandstand while also delivering the subtlest self-mocking asides. He has the large notes and small, the black and white. If he stays out of jail long enough Downey could become a major movie actor.

By contrast Julia Roberts and Susan Sarandon, or the characters they play in the maudlin *Stepmom*, could benefit from a long prison spell. There they would be unable to molest the public with large, lingering, moist-eyed close-ups. The two bi-generational divas play new fiancée and ex-wife, respectively, of Ed Harris. But their battle is less over him than over the two children. Can Roberts be a mum to the resentful tots? Will Sarandon ever back off from her maternal role, even with the help of terminal cancer?

Chris *Home Alone* Columbus directs earnestly and glutinously, like a man paying his debt to society for giving it Macaulay Culkin. But I would have paid for Culkin to appear here. He could have designed booby-traps for this extended family, one that extends across two hours of witless script and a screen the width and heft of a thousand copies of Reader's Digest laid end to end.

Playfully ransacking the vocabulary of sex appeal: Gwyneth Paltrow in 'Shakespeare in Love'

MUSIC

Conductor provides the drama

In advance the primary interest of these two London concerts at the Royal Festival Hall had promised to be the comparison between a pair of contrasting pianists playing Mozart piano concertos. But as it turned out, the main action was elsewhere.

First, however, the Mozart. On Sunday the Budapest Festival Orchestra under its founder and music director, Iván Fischer, visited London with a reduced number of players for an all-Mozart programme – a change from the big-orchestra Bartók and Liszt with which it has made its name since 1983.

The near chamber size of the orchestra suggested Mozart with an awareness of period style, and that was how it turned out. The textures were clear; the brass brayed convincingly; and the timpani used "authentic" hard sticks. Whether it was worth travelling a long way to deliver Mozart performances that were not much more than adept is another matter.

Fischer was most successful in the funereal *Maurerische Trauermusik* K.477 and the Adagio and Fugue in C Minor K.546, which he gave extra bite from his place at the harpsichord. For all its crisp good sense, the "Prague" Symphony No. 38 was rhythmically earthbound and did not sing. In the G Major Piano Concerto, K.453, Alexey Lubimov tried for period style on his modern-day grand, but only succeeded in sounding brittle, with little expressive warmth.

Step back 20 or 30 years and Mozart used to sound more as it did on Tuesday when Imogen Cooper played the B Flat Piano Concerto, K.595, with the Philharmonia. This was a performance which did sing, teasing out lyrical phrases even where none was expected, even if it was so doe-eyed as to be almost weepy in places.

The dominating, and most interesting, personality in these two concerts turned out instead to be the Philharmonia's guest conductor, Christoph Eschenbach. His performance of Beethoven's *Leonore No 3* Overture immediately captured the imagination as the statement of its main theme crept stealthily into view, despite scrappy ensemble and a variety of ideas about tuning within the orchestra.

As a piece of conducting, this was far preferable to Eschenbach's brassy Mahler in London last year, and the performance of Brahms's First Symphony that *followed* was better again. While staying within the boundaries of what is idiomatic, Eschenbach took risks: the soaring lyricism of the opening, the tense grip at the beginning of the finale, the rocketing pace of the final pages. Everything worked and much of it was exciting.

The near capacity audience even seemed to be concentrating on the music – quite an achievement, when we all know they had really come along to spy out this or that player whose private life had just been aired in the fly-on-the-wall series about the Philharmonia at the weekend.

Richard Fairman

Philharmonia concert sponsored by Principal Friends of the Philharmonia

Stylish show for Gorky's indomitable woman

THEATRE

ALASTAIR MACAULAY

Vassa
Albery Theatre, London WC2

Once again, the Almeida Theatre has enriched London theatre with a seldom-seen and remarkable play that extends our knowledge of the western canon. In particular, the Russian canon. Gorky's *Vassa* (or *Vassa Zheleznova*) left an immense impression when Katie Mitchell directed it at the Gate Theatre in 1990. With splendid nerve, the Almeida has staged this in the heart of the West End – at the Albery, where for three months this last autumn it played a brace of classics by Racine.

Gorky's playwriting career spanned some 35 years. *Vassa* spans much of this career, for he wrote it in 1909-10 (it had its premiere in Moscow the following year); and then he returned to it decades later, completing his revision of it in 1935, the year before his death.

Gorky is frequently remarkable for his strong women anyway, and it is the title character of *Vassa* that most distinguishes either version of this play. Like the Lady Macbeth of Mtsensk, whom Leskov had conceived and whom Shostakovich made an operatic heroine in the 1930s, she is startlingly unscrupulous, ruthless, indomitable. Poisoning, forgery, blackmail, espionage: she organises these within her own household.

In the 1935 version, Gorky moved the play from a small provincial town to a large city; he made Vassa's dying husband a paedophile; he made her more savagely *bourgeoise*, and set her against her social revolutionary daughter-in-law Rachel.

The Almeida/Albery production, by contrast, reverts to the first version, in which Vassa, for all her relentless drive, is more concerned for the future of her family; in which her daughters-in-law are no more modern than she; and in which the entire play has more comic relief and human warmth to offset its dark central drama.

This version has been directed by Howard Davies, and adapted by him from a translation by Tania Alexander and Tim Suter. And, once again, the Almeida has taken a remarkable play, has given it memorably picturesque designs (by Rob Howell), and has made it a showcase of Stylish Acting.

Sheila Hancock in particular, as Vassa, gives us a dark/light, funny/dour, harsh/feeling performance. It is a real pleasure to hear the musical current of her speaking, with its wide range of pitch and dynamics, and to observe her gestures, which lucidly illustrate the elements of denial, conflict, and control in Vassa's nature. But this is a performance like a carefully calculated lecture-demonstration; it stands between us and Vassa rather than lighting up Vassa from within. Nowhere else is the acting any more transparent.

In a programme note, Tania Alexander writes that this first version of *Vassa* "is a strong attack on the *meschane* class, the beginnings of the *petit bourgeois* values and materialistic attitudes which destroy the family". None of this becomes interesting in the Almeida production. Seldom does this *Vassa* make us aware of the wider Russian world beyond this family. (Isolated remarks about riots and the army seem like accidental intrusions.) By contrast, my enduring memory of Katie Mitchell's 1990 Gate staging of Gorky's 1935 revision is that it was an eye-opener in its presentation of Russian society. Through the black drama of this one claustrophobic household, we saw the bitter decay and conflict of an entire class. Everything about the Almeida production is impressive, interesting, entertaining. But it does not engage. Its characters appear isolated from the world and from us.

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INTERNATIONAL

Arts Guide

AMSTERDAM

EXHIBITION
Rijksmuseum
Tel: 31-20-673 2121
Asser: Pioneer of Dutch photography. Nearly 200 photographs, including portraits and still lifes, made by Edouard Isaac Asser (1809-1894); to Mar 14

OPERA
Netherlands Opera, Het Muziektheater
Tel: 31-20-551 8911
Carmen: by Bizet. New staging by Andreas Homoki, conducted by Edo de Waart. The designs are by Wolfgang Gussmann and Gabriele Jaenecke, and the cast includes Carmen Oprisanu and Martin Thompson; Jan 28, 31; Feb 3

BARCELONA

CONCERT
Palau de la Música Catalana
Tel: 34-93-268 10 00
San Francisco Symphony Orchestra: conducted by Michael Tilson Thomas in works by Bernstein and Mahler; Jan 28

BERLIN

OPERA
Deutsche Oper
Tel: 49-30-34384-01
Manon: by Massenet. Conducted by Sebastian Lang-Lessing in a staging by Cesare Lievi; Jan 28; Feb 2

CHICAGO

OPERA
Lyric Opera of Chicago
Tel: 1-312-332 2244
www.lyricopera.org
● Mefistofele: by Boito. György Györiványi Rath conducts a revival staged by Peter McClintock. Samuel Ramey sings the title role; Jan 30
● Roméo et Juliette: by Gounod. Conducted by John Nelson in a staging directed by Nicolas Joël. The cast stars Roberto Alagna and Angela Gheorghiu; Jan 29; Feb 1

DALLAS

OPERA
Dallas Opera
Tel: 1-214-443 1000
www.dallasopera.org
La Bohème: by Puccini. Conducted by Antonello Allemandi in a staging by Mark Lamos, with sets by Michael Yeargan; Jan 29, 31; Feb 3

HOUSTON

THEATRE
Houston Grand Opera, Wortham Center
Tel: 1-713-227 2787
www.hgo.com
A Little Night Music: by Sondheim. Grant Gershon conducts a production by Michael Leeds, with a cast including Frederica von Stade, Thomas Allen and Sheri Greenawald; Jan 29, 30, 31; Feb 3

LONDON

CONCERTS
Barbican Hall
Tel: 44-171-638 8891
● London Symphony Orchestra: conducted by Colin Davis in works by Elgar, Bartók and Beethoven, with violin soloist Sarah Chang; Feb 3
● Royal Philharmonic Orchestra: conducted by Daniele Gatti in works by Brahms and Mahler, with soprano Ruth Ziesak; Feb 1

DANCE
Sadler's Wells
Tel: 44-171-863 8000
Tanztheater Wuppertal Pina Bausch: Viktor. Long-awaited return to London by the Pina Bausch company, which is celebrating its 25th anniversary. With designs by Peter Pabst and a score including jazz, folk and classical music; Jan 28, 30

National Gallery
Tel: 44-171-839 3321
Portraits by Ingres: Images of an Epoch. 40 paintings and 50 drawings by the 19th century French painter. Includes major loans from museums in France, the US and elsewhere; to Apr 25, then touring to the US

Royal Academy of Arts
Tel: 44-171-300 8000
Monet in the 20th Century: arriving in London from Boston, this exhibition brings together late works by the founder of Impressionism. The 80 paintings on display include important public and private loans, culminating in a group of seven of the monumental water lily panels which were the triumph of his career. Also included are paintings of London and Venice; to Apr 18

LYON

OPERA
Opéra National de Lyon
Tel: 33-4-7200 4500
Zelmira: by Rossini. Conducted by Maurizio Benini in a staging by Yannis Kokkos, with a cast including Mariella Devia; Jan 30; Feb 1

MONTREAL

EXHIBITION
Montreal Museum of Fine Arts
Tel: 1-514-285 1600
www.mbam@cam.org
Monet at Giverny: 22 paintings, produced during the last 20 years of the artist's life, loaned by the Musée Marmottan in Paris; from Jan 28 to May 9

MUNICH

CONCERTS
Philharmonie Gasteig
Tel: 49-89-5481 8181
● Munich Philharmonic Orchestra: conducted by Fabio Luisi in works by Wagner and Liszt; Feb 1, 2, 3
● Symphonieorchester des Bayerischen Rundfunks: conducted by Lorin Maazel in works by Mozart and Bruckner, with piano soloist Murray Perahia; Jan 30

OPERA
Bayerische Staatsoper
Tel: 49-89-2185 1920
www.staatstheater.bayern.de
Lohengrin: by Wagner. Peter Schneider conducts, in a staging by Götz Friedrich. Cast includes Adrianne Pieczonka and Waltraud Meier; Jan 30; Feb 3

NEW YORK

CONCERTS
Avery Fisher Hall, Lincoln Center
Tel: 1-212-875 5030
www.lincolncenter.org
New York Philharmonic: conducted by André Previn in works by R. Strauss; Jan 28, 29, 30

EXHIBITION
Museum of Modern Art
Tel: 1-212-708 9480
www.moma.org
Jackson Pollock: first US retrospective of the Abstract Expressionist since that held at MOMA in 1967. Including more than 100 paintings and 50 works on paper; to Feb 2, then transferring to London

PARIS

CONCERTS
Salle Pleyel
Tel: 33-1-4561 6589
● Cleveland Orchestra: conducted by Christoph von Dohnányi in works by Beethoven and Stravinsky, with violin soloist Frank Peter Zimmerman; Jan 30
● Orchestre de Paris: conducted by Neeme Järvi in Orff's Carmina Burana; Jan 28

Théâtre des Champs Elysées
Tel: 33-1-4952 5050
San Francisco Symphony Orchestra: conducted by Michael Tilson Thomas in works by Canteloube and Mahler, with soprano Dawn Upshaw; Feb 1

TOKYO

CONCERTS
Suntory Hall
Tel: 81-3-3584 9999
NHK Symphony Orchestra: conducted by Stanislaw Skrowaczewski in works by Beethoven, Chopin and Lutoslawski, with piano soloist Bella Davidovich; Jan 28

UTAH

FESTIVAL
Sundance Film Festival
Tel: 1-801-521 2525
Sundance Film Festival: the influential showcase for independent cinema makes its annual appearance. Screenings take place in Park City, Salt Lake City, Ogden and Sundance; to Jan 31

VALENCIA

CONCERT
Palau de la Musica
Cleveland Orchestra: conducted by Christoph von Dohnányi in works by Beethoven and Stravinsky, with violin soloist Frank Peter Zimmerman; Jan 28

WASHINGTON

OPERA
Washington Opera, Kennedy Center
Tel: 1-202-295 2400
www.dc-opera.org
The Crucible: by Robert Ward. New production by Bruce Beresford, conducted by Daniel Beckwith; Jan 28, 30

TV AND RADIO

● **WORLD SERVICE**
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV

● **CNN International**
Monday to Friday, GMT:
06.30: *Moneyline with Lou Dobbs*
13.30: *Business Asia*
19.30: *World Business Today*
22.00: *World Business Today Update*

● **Business/Market Reports:**
05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

FT INTERVIEW JOSCHKA FISCHER

Green outlook on the world

Ralph Atkins and **Frederick Stüdemann** listen to the dilemmas of a revolutionary turned foreign minister

"When someone with a biography like mine becomes German foreign minister, then that shows something of the democratisation of Germany. And one does not need to fear this at all."

Indeed, there is very little that is frightening about Joschka Fischer today. With his gold-rimmed reading glasses and grey hair, the first Green to conduct German foreign policy looks more like a conservative, 19th century statesman than the fiery revolutionary he was in 1968.

Since joining Gerhard Schröder's Social Democrats in government, Mr Fischer has learned much about the art of compromise: how to accommodate the Green party's anti-nuclear stance with Germany's foreign commitments; how to justify military intervention in Bosnia when you have been an anti-imperialist all your life.

It is a complex stance, reflecting the agonies of a generation of world leaders who cut their political teeth in the 1960s and 1970s.

"For my generation I was not anti-American," Mr Fischer says. "I was against a lot of US policy. But I felt close to American culture. In our minds, Berkeley was around the corner. Woodstock was not an expression of a foreign culture, it was our own culture." It is thanks largely to US and UK policy after 1945 that democracy was secured in West Germany. "That is one of the most important legacies which we will take with us to Berlin."

The Greens are supposed to be pacifists. Last year's US and UK air strikes against Iraq alarmed many Green MPs, and there are qualms about a possible military operation in Kosovo.

Now that the the Greens are in power, Mr Fischer insists that his party understands its responsibilities. He says the coalition government stands for continuity in Germany's foreign policy. Continuity, in fact, has been his watchword since taking office, largely to calm nerves in Washington and other western capitals.

Germany's allies, he says, can count on it as a reliable Nato partner, even if early on there were some jitters when he proposed that Nato adopt a "no first use" policy on nuclear weapons.

Mr Fischer is riled at suggestions that he is, or was, a pacifist. "A revolutionary is no pacifist . . . But I am firmly for a suppression of military violence and see it as a huge act of progress that European integration has implemented a lasting structure for peace."

He says he backed military intervention in Bosnia "as a last resort".

He will need his talent for compromise and reassurance when he begins to oversee negotiations that will transform the European Union's finances and prepare for the momentous embrace of countries of the former communist east.

> 'For my generation I was not anti-American. In our minds, Berkeley was around the corner'

By the end of March, Mr Fischer hopes to have wrapped up the so-called "Agenda 2000" reforms on the EU budget and agricultural policy. The mammoth task of squaring French and German agricultural lobbies, southern European demands for structural aid, the UK rebate and Germany's own demand for cuts to its contribution to the budget, will fall during Germany's presidency of the EU.

Mr Fischer won't say by how much Germany would like to cut its net DM22bn ($13bn) contribution. "Everyone has to be prepared to make compromises. Nobody is prepared to make compromises at any price – including Germany."

On Europe, Mr Fischer almost prides himself in continuing the work of Helmut Kohl, the former chancellor – perhaps recognising he has to build the confidence of allies, in the government and overseas. "When you look at things like the Euro, enlargement and the Agenda 2000, they were all things decided by the previous government . . . The new government has not set a new policy on Europe but it has been taken into a new stage of development, building on top of what has already been done."

Like Mr Kohl, Mr Fischer favours a political union, with the EU ultimately developing its own constitutional form. "I have never made any secret of the German position, going back many years, that we want to take the integration of Europe to its conclusion, to give it a political aspect."

His ideas raised a predictably hostile reaction in the British press when floated earlier this month in the European parliament. But Mr Fischer already has the weariness of most German politicians when it comes to UK's role in Europe. He spent Christmas reading *This Blessed Plot*, the history of Britain's post-war role in Europe by Hugo Young, the UK journalist, which, Mr Fischer says, "made the British ambivalence towards Europe absolutely clear".

Germany, he argues, backs European integration, because it has averted

Fischer: a different tone Wolfgang von Brauchitsch

nationalist wars and is an answer to economic globalisation. "These two reasons were not invented by Mr Kohl or François Mitterrand [the late French president] but were the basis of the European integration process from the start and are still relevant.

"This is what has created the difficulties over the British role or British self-awareness – because Great Britain has a different history and had a different role."

Perhaps as a result, a political union would not be rushed under Mr Fischer. Under German plans to be presented at the Cologne EU summit in June, institutional reforms would be focused on majority voting, voting weights and the size of the Commission. Deliberations would culminate in an inter-governmental conference in 2001. But, Mr Fischer insists: "The question of the final form of the European Union will have to be reflected in institutional reform. It will not be fully represented yet, but in every discussion . . . the problem of the final form surfaces."

Mr Fischer has been surprisingly reticent about one big change in policy: the Greens's insistence that the coalition government commit to a timetable to phase out nuclear power. He has prefered to leave the difficult negotiations to Jürgen Trittin, the Green environment minister, who has been provoking fury in Paris and London with his demands for an end to the reprocessing of German nuclear waste in France and the UK.

On Tuesday, Mr Schröder made some amends with his European partners – but annoyed many Greens – by backtracking on parts of his government's programme to phase out nuclear power. Mr Fischer remains sanguine about the strength of the red-green alliance.

"We would have completely different problems in the coalition today if the Greens did not have the foreign ministry. The influence of the Greens on policy as a whole is considerably stronger because we have the foreign ministry," Mr Fischer asserts.

On foreign policy, at least, Mr Fischer insists there are no differences of opinion between himself and the chancellor. "We have a different tone, because we are different people," he says. "When you look at the substance, there is no difference."

LETTERS TO THE EDITOR

Devotion to harmony does no good

From Mr G. M. Simon.

Sir, In "Testing the euro's mettle" (January 22) Peter Martin described as "balkanised" a European corporate structure without a pan-European company statute. Perhaps it has escaped his notice that in the US, a much more vigorous economy, a company can be incorporated in a specific state, with its own special tax and corporate arrangements. Switzerland is similar. They do not seem to need "harmonisation" there.

The changes Mr Martin advocates will not improve the job prospects of the millions of unemployed European workers by one iota; more likely the reverse, since changes in company law will generate uncertainty as to legal effectiveness where at present there is certainty. That will not be simply a matter of legal theory but will affect questions as to banking and commercial practice.

Re-incorporation under some European corporate statute would cost money in fees without the remotest economic advantage.

In the same article Emma Tucker suggests that transparency will drive down prices. For what? Will hotels in London become as cheap as those in, say, Lisbon? Will consumers in, say, Manchester check comparable prices in Stuttgart, Lyons or Rome? They might if they had access to the internet; even then it is unlikely that they are going to buy typical household goods overseas to save a few pounds. Differing prices rule in different parts of the US. Why should Europe be any different?

It is precisely this unthinking attitude to "European harmonisation" – so similar to the religious zealotry of the Middle Ages and from which the editorial columns of this paper are not immune – that is so damaging to the general perception of the attractions of a closer relationship with the euro-zone. Mr Martin and other euro priests should ask themselves if the changes they are advocating are likely to do any good at all other than for the employment prospects of officials.

G. M. Simon,
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ECAs need binding standards

From Mr Jon Sohn.

Sir, "US group faces attack on India 'rights abuse'", January 25) exposes an ongoing disregard for human rights concerns in developing country project finance. The landscape of large-scale extractive and infrastructure projects backed by public export credit and investment insurance agencies shows an obvious disregard for social and environmental concerns. What is more disturbing is that those public institutions that take a lead in integrating such standards into their financial decision-making are scorned by their international competitors.

Ex-Im and all other export credit agencies show little if any concern for human rights standards in the projects they support, as evidenced by the Human Rights Watch report. For instance, both US Ex-Im and CoFace of France ignore a number of troubling issues in their review of Exxon's Chad-Cameroon pipeline project. It appears that no lessons shall be learned from Dabhol by those involved.

In terms of environmental standards, Ex-Im is the first export credit agency to systematically conduct environmental assessments for all projects it supports. However, competitors such as the UK's ECGD and CoFace of France take advantage of this leadership to attract contracts, causing a race to the bottom whereby ECAs with the lowest standards can get deals.

A better approach would be for these countries to recognise the importance of exporting clean air and water standards as a condition of backing transnational development, particularly when public money is involved. It is time for the G8 to make binding environmental and human rights standards a priority issue for publicly backed ECAs.

Jon Sohn,
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How Germany can leap ahead

From Mr Ted van Hees.

Sir, After a 17-year slumber, the German government has awoken with a thud to the developing world's debt crisis and the strategic threats emanating from it ("Germany's helping hand", January 21). We congratulate!

Let laggard Germany not just catch up with its more progressive G8 peers, but take a leap ahead. This means going beyond the cancellation of aid debts, theoretically standard practice since 1978, to the much more contentious cancellation of export credits, by now the far bigger problem in the world's poorest regions. If, as Gerhard Schröder intimates, Germany unexpectedly takes the lead on this, much indeed can be gained from the Cologne summit.

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PERSONAL VIEW GORDON ADAMS

The Atlantic option

With major companies in the defence industry looking for global access, it is time to embrace reciprocity and abandon the fortress mentality in favour of transatlantic reach

One feature of the merger of British Aerospace and General Electric Company's defence division deserves highlighting: the combined company will do 25 per cent of its business in the United States. It illustrates a growing trend in the once hidebound world of defence: the search for global access, particularly to the large US defence market.

Against this trend, some governments in Europe held out hope for the creation of a European defence champion – at least until the BAe/GEC merger was announced.

The tension between these two approaches to defence restructuring – transatlantic reach versus European (and American) fortresses – continues to fuel debate on both sides of the Atlantic.

There is, however, a powerful logic to the Atlantic option. The BAe/GEC move and the approaching 50th anniversary Nato summit provide an opportunity for governments on both sides to strengthen the Atlantic trend, and reject the fortress mentality.

What is the logic that makes the Atlantic option compelling? First, military hardware budgets on both sides of the Atlantic have fallen to unprecedented lows. Defence procurement in the US fell 67 per cent in constant dollars between 1987 and 1998; the decline for the Nato allies was 35 per cent. The resulting cancellations and smaller production runs have brought very inefficient pricing. Even the recently announced $110bn increase in US defence budgets over the next five years will not restore efficient production rates for ships, aircraft, helicopters and transport aircraft.

The Europeans have already merged acquisition for several generations of fighters and missiles, and are working on doing so for transport aircraft and helicopters. Yet, as the Eurofighter programme suggests, even amalgamating demand across Europe is not enough to achieve an efficient rate of production. Only uncertain overseas sales could make up the difference. The logic for making the next fighter a transatlantic programme seems compelling.

Force to be reckoned with: Future military strength will depend on pooling technological resources AP

The second argument for transatlantic consolidation is technology. Information, communications and electronics are vital to ensuring a capable military force. The firms that produce these essential elements of military success are global, commercial businesses. Future military strength will depend on pulling that technology together in hardware programmes, not on trying to keep the technologies secret. The firms that own the technologies are transatlantic; neither "side" owns an advantage here. It is in the interests of both the Americans and the Europeans that this technology flows both ways with ease.

The Americans are beginning to recognise this reality: "Globalisation is a fact, not an alternative for Department of Defence modernisation," one DoD panel has concluded.

The third reason is a military one: the requirements of coalition operations both at the European fringe (the Balkans) and further afield (the Gulf). Recent defence reviews in the US, UK and France all move towards an enhanced expeditionary capability.

In contrast to the cold war, these forces are being used in coalition operations. Whether keeping the peace or fighting, their effectiveness depends on their ability to communicate, share information and intelligence.

Industry consolidation is bolstering the transatlantic logic. The American wave led to four surviving defence system integrators – Boeing, Lockheed-Martin, Raytheon and Northrop-Grumman – which are now tentatively exploring ways to increase their European presence.

European industry, at first frozen in place, has begun to move, as the BAe/GEC, Aerospatiale/Matra mergers and Vickers/Giat co-operation indicate. While European governments seek to impose a European champion vision, industry, left to its own devices, seeks the most efficient alliances. Tank manufacturers co-operate across British-French lines; missile companies move across Franco-British-Italian-German lines. If the largest market is in America, they will seek opportunities there, as GE/Snecma, Rolls-Royce/Allison and GEC/Tracor demonstrate.

Governments on both sides of the Atlantic, however, are resisting market-driven consolidation. The BAe/GEC merger disappointed the British government, which was pushing for a European tie-in. German defence concerns felt "jilted at the altar" by BAe. The French are leading the call for a grand European champion. Fortress Europe cannot be far behind.

The US defends its own fortress. Export controls, rules governing the transfer of technology and merger clearance processes have for years frustrated European attempts to secure a foothold in the US market.

Governments need to heed the BAe/GEC merger and abandon the notion that politics should trump good policy and economic efficiency. Those responsible for the bottom line in the business are far better equipped than politicians to shape the industry's consolidation.

The result will not be one heavy, inefficient merged European firm versus the Americans. It will be US firms that became European and European firms that became American, within and across product lines, enhancing competition and efficiency in a broader transatlantic market.

As buyers of the end product, governments have an important role to play. What can they do to take maximum advantage of the transatlantic option and tear down fortress walls?

- European efforts to integrate defence into the EU and create common procurement rules should be bolstered by a Nato initiative to harmonise such rules across the Atlantic.
- Export control policies, which are being co-ordinated in the EU, should be co-ordinated through Nato.
- Merger and acquisition regulations require fewer constraints.
- Future defence reviews need to be co-ordinated, not mailed to allies after they are done.

The key to taking advantage of the transatlantic logic will be reciprocity. Europeans will need to bury some bruised feelings: Americans will need to internalise the logic of co-operation before their policy decisions are made. The alternative of two fortresses is harmful to the interests of both sides.

The author is deputy director of the International Institute for Strategic Studies in London

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FINANCIAL TIMES

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Thursday January 28 1999

No devaluation in China

China has no plans to devalue, as Dai Xianglong, the central bank governor, yesterday reaffirmed. This will come as a comfort to China's neighbours, and for investors in the region. However, in a crucial sense, Mr Dai has changed the nature of the commitment.

Keeping the renminbi in a range close to 8.27 to the dollar has been an immutable promise, a political commitment. Mr Dai has weakened this commitment by introducing a caveat, an economic contingency: "The renminbi would devalue only when there is a great imbalance in the balance of payments of China, and there is a great increase in the cost of exports."

Mr Dai is no doubt shooting straight when he says that China is not preparing for a devaluation. The costs of devaluation he identified – lost foreign direct investment, increasing the burden of foreign debt, and in terms of the stability of the financial sector – are all important. Moreover, the major reason for concern over a devaluation last year, the weakness of the yen against the dollar, has been reversed.

However, Mr Dai has undoubtedly opened the way for greater flexibility, if balance of payments and export performance prove worse than expected. China has already suffered from fallout from the Asian crisis. Export growth has slowed from 21 per cent in 1997 to less than 1 per cent last year.

Market pressures on the renminbi are very limited. Capital controls mean that speculation is all but impossible. But fears of devaluation have led to capital flight. More than $20bn was spirited abroad last year, illegally circumventing the currency laws. This is not enough to raise fears of a balance of payments crisis. China has some $145bn in reserves, more than enough to cover a year's imports. But the authorities might be tempted to devalue if, through a combination of declining exports and capital flight, reserves fall substantially.

However, in deepening the crisis in the region, and setting off a further round of devaluations, a Chinese devaluation would do little for exports. Moreover, imports would be made more expensive in a country where more than half of exports consist of processing imported inputs. Devaluation would put severe pressure on Hong Kong's currency board. China would also lose the political good will it has built, in the region and internationally, by maintaining the value of its currency.

All this means that the importance of Mr Dai's comments should not be exaggerated. But nor should it be ignored. The central bank governor traditionally holds one press conference a year. Presumably he chooses his words extremely carefully.

Europe's right

Every five years Europe makes an attempt at transnational politics, as its parties gear up to fight the European Parliament elections on a left-right basis. But this summer's European parliament contest is looking rather lop-sided, with the European right in a sorry state.

Out of the EU's 15 countries, the right is in sole control in only one state, Spain, and is unlikely to gain power elsewhere any time soon. In France, the mainstream rightwing opposition seems too incompetent to exploit the new split in the far-right National Front. In Germany, Chancellor Schröder's red-green coalition is being shaken more by its division over nuclear power than by pressure from the Christian Democrat opposition. And in Britain, William Hague, the Conservative leader, has yet to find any issue to dent Tony Blair's popularity.

Does the slump in the European right's fortunes matter? Yes, for two reasons. The first is that a healthy European right is less likely to go hunting for racist votes. The second is that a bold European right is needed, particularly on the continent, to take a lead in espousing liberal, free-market policies from which the centre-left (outside Blair's Britain) still often shrinks.

But these days Europe's left is not an easy target for the right to attack. The left is harder now to caricature as unpatriotic or soft in defence of national interests. The Blair government is keen on defence, not to say threats of force in places like Iraq or Kosovo. The Schröder coalition has also toughened Germany's military stance. The Jospin government has taken a hard-headed line on illegal immigration.

The right used to get much mileage out of promising to protect national identity. But national identity, in terms of sovereignty, is being inexorably undermined from below by the growing importance of Europe's regions and from above by European Union integration.

Mr Hague is fighting this trend, so far to little effect, with his charges that Mr Blair is undermining Britain's national identity by giving Scotland and Wales autonomy and preparing to sweet-talk the country into the euro. Claims to protect national identity can also degenerate into racism, a risk the German opposition is now running in campaigning against enlarging the country's citizenship.

In the face of this, Europe's right could just wait for the pendulum of power to swing back. Far better, though, that it should take up the challenge of making the case for economic liberalism. A clear stand against state job-creation schemes or EU tax harmonisation, and in favour of solidly buttressing the European Central Bank's independence would give the right distinctive policies of its own.

Peace in peril

The wave of so-called punishment attacks by paramilitary terrorists raises grave concerns about the future of the peace process in Northern Ireland. The maiming of innocent people in the wholly spurious cause of something called "community justice" has provoked widespread revulsion. The agonising judgment facing Tony Blair's government is whether to conclude that the attacks effectively mark the end of the IRA and loyalist ceasefires.

William Hague's Conservatives are demanding the suspension of the early release programme for terrorist prisoners in the province until the violence stops. According to their figures, the IRA has been responsible for at least four shootings, 12 beatings and 22 cases of intimidation this year. The tally of loyalist paramilitaries is higher still.

The reluctance of the political representatives of such groups to condemn these acts of brutality has heightened concern that they represent a cynical attempt to undermine the peace process. Sinn Féin's Gerry Adams and Martin McGuinness have refused to discuss the crisis with Mo Mowlam, the Northern Ireland secretary. Mr Adams, who has recently decided to sell his speaking talents on the lucrative US lecture circuit, has become uncharacteristically shy of the media. Loyalists are only slightly more forthright.

The risk now is that this escalating violence – and yesterday also saw the apparent murder in the province of a prominent IRA member-turned-informer – could finally derail attempts to set up the new Northern Ireland executive promised by the Good Friday agreement. Ulster Unionists have already refused to share power with Sinn Féin in advance of some decommissioning of IRA arms.

Yet if the halting of prisoner releases is superficially attractive, it is also perilous. To take such action would – as Mr Blair argues – effectively give up on hopes of a political solution.

There may well come such a moment. The government cannot indefinitely compromise the normal rules of democracy in the face of such appalling acts. Yet those who demand action now might pay heed to the advice of George Mitchell, the former US Senate leader who oversaw the Good Friday agreement.

Seeking peace, Mr Mitchell said, "takes courage, perseverance and steady nerves in the face of violence. I believe it a mistake to say in advance that if acts of violence occur, the negotiations will stop. That's an invitation to those who use violence to destroy the peace process and it transfers control of the agenda from the peaceful majority to the violent minority."

China throws a lifeline

Beijing is trying to get to grips with its shaky financial system. James Harding weighs up the authorities' efforts

As its leaders never tire of asserting, China is not at all like those other emerging markets that have gone bust.

Repeating the message, the chairman of the central bank yesterday again swore the country would not devalue, while announcing the biggest shake-up in the financial system so far: he will provide dollars to failed investment trusts and set up a system for dealing with bad loans modelled on the one adopted in the US after the savings and loan scandals.

It is true that China is different. It has tight capital controls, which wall off the currency from speculative assault. Foreign exchange reserves worth over $145bn cover the full extent of the country's foreign borrowings. Capital inflows mostly take the form of foreign direct investment which cannot fly out again in a panic. And, having registered 7.8 per cent growth last year, Beijing boasted the fastest economic expansion in Asia in 1998.

The trouble is that its financial system looks unsettlingly similar to that of recent confidence victims. The leadership has staked its political credibility on a fixed exchange rate, defending a *de facto* peg to the dollar in the teeth of international scepticism and domestic suspicion. The recent collapse of a prominent investment company, the first bankruptcy in China's modern history, has offered foreign lenders a painful glimpse of the cronyism and incompetence at work in over-borrowed, underperforming non-bank financial institutions.

Meanwhile, an insolvent banking sector has been increasing loans to inefficient state-owned enterprises at a rate that outstrips output growth, thereby heaping new non-performing loans on old ones. Judged by their capital adequacy ratios, the level of non-performing assets and profitability, China's banks do indeed look different to many of their Asian counterparts – they look worse.

Nicholas Lardy, in his recent book, *China's Unfinished Economic Revolution* (Brookings Institution), observes: "The challenge China faces in reforming its banking system in certain respects exceeds that of most other emerging markets."

The state banks' relentless extension of credit mostly to inefficient state enterprises is building up a pile of non-performing assets which represent a future debt burden to the Chinese government, a choke on productivity and economic growth as well as the seeds of doubt among domestic depositors, whose savings are the ultimate underpinning of the Chinese banking system.

Unlike other emerging economies, foreign investors have little influence over the outcome of China's financial problems. The country's limited financial liberalisation means most of its problems will be solved – or worsened – by what happens at home. But the international implications of domestic financial developments are huge.

A Chinese devaluation could threaten another round of Asian currency turmoil, jeopardise the fragile beginnings of a regional recovery and dent the prospects for world economic growth.

China's ability to borrow abroad has already fallen into question, as a foreign credit squeeze has gathered momentum since the bankruptcy of Guangdong International Trust and Investment Corporation – Gitic – exposed problems across a range of trust and investment companies, known as the Itics.

Yesterday, the man responsible for the financial system, the central bank governor Dai Xianglong, set out to put the doubters of China at their ease. His language was reassuring. The question is whether on the three chief sources of concern to international investors – the exchange rate, the Itics and the banks – robust language will be enough to retain confidence.

First, the exchange rate. "We have a solid foundation for a stable exchange rate ... As a person in charge, I can say the renminbi will not be devalued," Mr Dai said, repeating the oft-repeated pledge of the Chinese leadership.

Asian markets were initially buoyed by the comments. Liao Qun, China analyst at Standard Chartered in Hong Kong, responded: "Most importantly, the central bank governor reaffirmed that the renminbi will not be devalued. [Prime minister] Zhu Rongji said the same thing the day before ... That should calm down market concerns about the future of the renminbi."

But the issue is not likely to lie low for long. Mr Dai yesterday offered a condition to his pledge of exchange rate stability, which may ring longer in the ears of international markets than the commitment itself.

"The renminbi will devalue only when there is a great imbalance in the balance of payments of China and when there is a great increase in the costs of exports," he said.

Although he said "those conditions do not exist this year", China's external performance has been given as a key determinant of the exchange rate.

The external performance is likely to get worse. Shanghai's mayor, Xu Kuangdi, for example, forecast export growth in China's chief commercial city of 5 per cent this year, half the growth rate of 1998. Nationally, exports this year are expected to decline, for the first time this decade.

The cost of Chinese goods overseas will also depend on factors well beyond Chinese control, such as the value of the Japanese yen, the health of the US economy and even the stability of currencies in Latin America.

Mr Dai may simply have been giving himself some sensible economic leeway. But the nature of China's no-devaluation pledge has changed. Dong Tao, economist at Credit Suisse First Boston in Hong Kong, commented: "Last year, it sounded more unconditional. This year, it is conditional."

Second, the Itics. Mr Dai plainly wanted to stop the spread of creditor anxiety that had been caused by the closure and then bankruptcy of Gitic.

The foreign borrowings held by the other Itics, he said, were not as big as some foreign investors and even China's own officials had suggested.

The remaining 239 Itics have total external debts (including guarantees) of $8.1bn. and the short-term debts were about $2bn. The Itics would be allowed to exchange Chinese currency to meet their registered foreign debt payments, easing the liquidity squeeze. And China would restructure the sector, although not shut down a swathe of trusts.

Even Gitic's creditors were offered a life-raft of sorts. Foreign lenders have been preparing for substantial losses on their loans to Gitic, since the government reneged on its earlier promise to give international creditors priority and the company filed for bankruptcy. Mr Dai suggested the banks might work together to restructure Gitic's debt.

The comments on the Itics were, therefore, a clear signal of Beijing's concern about foreign investor sentiment. But, again, the matter has not been laid to rest. Some foreign bankers and western economists were immediately sceptical of Mr Dai's calculation that the Itics' external debt was a modest $8.1bn.

"How does he know, given how much of their financing is hidden?" asked one western economist. He added that as Mr Dai's figure was only of registered debt, the common estimate of unregistered debt of $6-7bn would bring the total figure to $14bn-15bn, excluding Gitic.

Third, the banking sector. The central bank governor offered the first details of a pilot programme to lead to the establishment of asset management companies to handle the non-performing loans at the "big four" state-owned commercial banks.

"The objective is to make credit officers accountable for their practices ... to deal with non-performing assets in a clear, specific manner [and] to improve the balance sheets of the state-owned banks," Mr Dai said.

The asset management companies will take on those problem loans that fall into a specific category of non-performing assets, namely loans overdue by two years or more. Bad debts, for which the banks should have already made provisions, and loans that have just fallen overdue will be handled by the banks themselves.

The government will have to make a capital injection to launch the asset management companies, but Mr Dai said officials were still discussing whether the Ministry of Finance or the People's Bank of China, the central bank, would foot the bill.

Indeed, as many of the details are "still being actively discussed", according to one official, observers were left with little choice but to welcome the broad thrust of the new policy but wonder how it would work. "It is planting a seed," said one western economist in Beijing.

The inspiration for the latest Chinese initiative to address the bad debt problem is the US Resolution Trust Corporation, which was established to clear up the mess left by the savings and loan crisis. But, he said, there were more differences than similarities between the problems facing the US financial system in the 1980s and the one in China today: "It is not entirely clear how they are going to proceed."

China remains on the path of financial reform. But, as Mr Dai's performance underlined, the process throws up as many questions as it answers.

Many longer-term questions about the health of the financial sector were ignored yesterday. There was no mention of the programme of bank recapitalisation, a feature of last year's reforms, nor of the prospects for further private ownership of shares in the banking sector. "It was thin on a lot of fronts," said one western economist, who said it seemed to confirm the absence of "a strategy for the financial sector that we have always thought is lacking".

For the time being, it may not matter too much that a small band of analysts and economists has been left feeling that the government's balance sheet on the financial system shows more negatives than positives. Domestic depositors are still a long way from losing confidence in the banks, giving China a crucial window in which to reform its financial affairs.

"At the end of the day, Chinese depositors believe their deposits are safe in Chinese banks," says one economist.

While that remains the case, Beijing has time to reform the troubled core of its financial industry. But if the time were ever to come when Chinese depositors started to have their doubts, China could end up wishing it were more like, well, south-east Asia, Russia or Brazil.

OBSERVER

Beefing about the Burghers

The Burghers of Frankfurt have fallen foul of the Dortmund-based League for the protection of the German language. The Frankfurt city fathers' plan to add the tag "city of the euro" in English to road signs and official notepaper has been roundly attacked by League chairman Walter Kraemer. He blusters that the proposal is "embarrassing and tasteless" and swears it will have Frankfurt's most famous alumnus Goethe turning in his grave.

Not wishing to appear remotely xenophobic, the league is at pains to point out that it's willing to countenance certain foreign words in the German tongue.

But in order to ward off Frankfurt's total cultural surrender to die Engländer, the league is collecting signatures, making appeals to local politicians and generally "denouncing the nonsense" in a series of public protests. Observer can only wish them Vorsprung.

Crying shame

With British Airways' shares and profits falling fast enough to make your ears pop, it's good to see the World's Favourite concentrating on the essentials. Passengers staggering into BA's terminal 4 arrivals lounge at London's Heathrow are being met – thanks to clever little capsules hidden in the floor – with the aroma of freshly-cut grass and the scent of the sea.

They might well need some soothing. Many are furious over BA's latest little trick – weighing their hand luggage. First and business class passengers with more than nine kilos are being forced to put it in the hold. Economy customers are allowed a meagre six kilos.

BA says the weighing game is all about improving punctuality; passengers have been arriving at the gates with too much hand luggage, delaying flights. But the new arrangements have led to some ferocious arguments around the check-in desks. So if the whiff of ozone doesn't do the trick, perhaps BA could try tear gas.

Driving a deal

The curious tale of romance and rejection between Nissan and its suitor DaimlerChrysler has just taken another intriguing twist. The decision by Nissan president Yoshikazu Hanawa to cancel a long-planned new year party for analysts and foreign journalists two hours before it was due to begin, has led to another bout of fevered speculation about an imminent deal with the German-US group.

Hanawa aides hit the phones to say he'd been struck by sudden illness. But what exactly was the strange ailment that had done for the president of Japan's second-largest car company? Analysts are talking about *mah-jah byo* – or merger sickness – while others reckon he simply wants to avoid awkward questions for a bit longer.

DaimlerChrysler's lips have been tightly sealed as well. When co-chairmen Jurgen Schrempp and Robert Eaton turned up a few days ago at the company's car and truck exhibition in Tokyo they were saying nothing about any deals with the Japanese carmaker or its truck and engine affiliate.

Despite repeated efforts by the media to get the two men to elaborate on their pledge to forge a "Partnership with Japan", they remain frustratingly discreet about what, if anything, is going on. Only Schrempp has been moved to volunteer: "I am a chess player ... if two of us play chess and I tell you my next three moves, I'll never win." So, game on.

Cash bash

The silliness has started. How much do you intend to spend to enjoy yourself on the night when this century slips into the next? Will you be jetting off to the Caribbean, Sydney or New York? Or how about rolling up at London's Savoy hotel – scene of some of the city's most opulent and extraordinary bashes for more than 100 years?

Who could forget that famous night in 1905 when Wall Street financier George Kessler recreated Venice in the forecourt and Caruso sang for £450? Or – come to think of it – the time Pavlova danced for the Archbishop of Canterbury. Or the evening when opera singer Luisa Tetrazzini demanded, and got, a crocodile steak?

Well, this new year's eve promises to be a humdinger. There's a champagne reception, a seven-course gourmet dinner, as much Château d'Yquem and Bâtard Montrachet as you can get down your neck, a surprise cabaret and an all-night dance. Throw in two nights' accommodation and it will cost *from* £7,000 a couple. And you'll have to enter a ballot for tickets. *Bonne chance!*

Lack of confidence

What better vote of confidence could there possibly be in the just-launched Air France share sale than for Jean-Claude Gayssot, France's Communist transport minister, to state an intention to buy a few shares to show he thinks they are good value?

Sadly, it is not going to happen. His office confides that the minister is not going to buy any of the shares to prevent any chance of a suspicion that he might have benefited from preferential terms.

The Financial Times

100 years ago

India's Trade

It must be remembered that the figures for 1897-98 cover a period when India had not recovered from the disastrous effects of plague and famine. We find a decline of 3.5 per cent in the imports for the year 1897-98 compared with the previous year and a more serious falling off of 6.1 per cent in the exports. The shrinkage in exports is still greater if we take the comparison back to 1895-96, and amounts to 14.6 per cent. The contraction in that year results from the crop failure in 1896 and to the disorganisation produced by the plague in Western India.

50 years ago

Supplies To Belgium

Brussels, Jan. 27. Many opportunities for British business were being missed in Belgium, declared Mr. W. Norman Doley, president of the British Chamber of Commerce in Belgium, at the Chamber's annual banquet to-night. Belgium gave every opportunity of selling more goods in the market, he said, which was open to all nations, subject to normal currency availability. If we did not achieve better results, it was not Belgium's fault.

FINANCIAL TIMES

THURSDAY JANUARY 28 1999

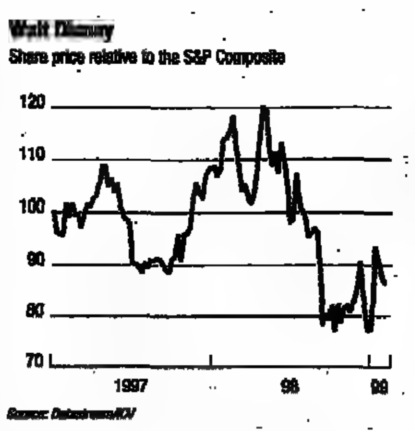
THE LEX COLUMN

Into a headwind

The Air France privatisation has been cleared for take-off at a less than ideal moment in the industry cycle. Slowing economic growth is beginning to squeeze prices hard. Hammering this home yesterday, Air France warned investors its passenger yields would fall by 4-5 per cent this year and next. Profits are not expected to recover until after that.

This is not a great background for an IPO – even one where the owner is selling only 20 per cent of the shares. To counter this, Air France argues its restructuring programme – designed to close the efficiency gap between it and rivals – will cushion the pressure on profits. But the downturn is forcing other airlines to restructure, so it will have to run hard just to keep up.

Nor do the shares look especially cheap. At the offer range of €12-€14.20 a share, Air France has an enterprise value of between €6.3bn and €6.8bn, representing about a 20 per cent discount to fleet replacement cost. This is broadly in line with Swissair and KLM, but far higher than Lufthansa, which stands on a 49 per cent discount. Since the German airline is Air France's closest rival, this hardly gives international investors a strong incentive to buy the stock. The issue is likely to get away at the bottom end of the range, given that the amount of money involved is small at €400m. But investors should not expect an explosive price performance thereafter.



Walt Disney

The Mouse has his tail tucked firmly between his legs these days. After no noteworthy growth last year, Walt Disney's profits have now gone sharply into reverse. Underlying earnings in the first quarter of the group's new fiscal year dropped nearly 40 per cent.

To be fair, part of the blame must fall on weak demand in Asia and Japan. And Disney is, quite rightly, investing heavily in new theme parks and the internet, at some cost to short-term profits. But the company deserves blame too. It has still not turned around its ailing ABC television network and it now appears to have badly overpaid for its American football broadcasting rights. Meanwhile, rising production costs are depressing film margins despite recent success at the box office. Most importantly, Disney badly needs another big animated film hit, which can feed merchandising and home video sales as *The Lion King* did in 1994.

Failing that, much is being made of Disney's aggressive internet strategy. It has teamed up with search engine Infoseek to launch the Go Network and this has revived its lagging share price. Disney certainly has a valuable brand. Whether it has the technology and adaptability to turn Go into a successful portal site at time of increasing competition is more questionable. A rating of 40 times earnings might be appropriate for Disney.com. For plain old Disney, with another flat year in prospect, it seems too fancy.

Eureko/GRE

There could hardly be a greater contrast between the two leading bidders for Guardian Royal Exchange. For Royal & Sun Alliance, the acquisition would take out a UK rival, offering annual savings of £150m or more. For Eureko, an alliance of seven European insurers, GRE would add UK non-life operations to the portfolio and offer a vehicle for a listing. The latter approach offers far fewer savings, beyond some overlap in life assurance with Friends Provident of the UK and, in Germany, with Parion.

So how is it that Eureko can contemplate topping RSA's bid? It can afford to. The seven have sufficient reserves to fund a cash bid of £3.5bn, or 400p a share. This avoids RSA's disadvantage in having to pay partly in low-valued paper. Eureko plans to sell GRE's US operations, which might lop the best part of £1bn off the net cost. Of course, it should find it harder than RSA to justify paying a 30 per cent premium to GRE's net assets of around 320p per share. But then its mostly mutual constituents are not under the same shareholder scrutiny. And the deal can be portrayed as part of a pan-European strategy in a much bigger consolidation game.

That last point raises the question of Axa's position. The French insurer wants to beef up its UK non-life operation, and boasts highly rated paper. The same could be said of the strangely quiet Allied Zurich, whose Eagle Star business overlaps with Guardian.

Northern Rock

Northern Rock's plan to dip a toe into the mortgage securitisation pool should send shivers down the spines of other mortgage lenders. The birth of a UK market for mortgage-backed securities has been proclaimed many times before, so a degree of scepticism is forgiveable. But a sector facing no growth and a margin squeeze can ill afford to be complacent, especially when trading at 16 times 2000 earnings.

The Newcastle lender has little incentive to start a price war. Its problem is that the war has already started in the retail savings market, where the rates offered by Egg and Standard Life are putting traditional deposit funding under threat. If Northern Rock does not start shooting, other new entrants could steal its guns.

There are still technical obstacles to the development of the mortgage-backed securities market in the UK, such as the accounting treatment of cashbacks. But Australia offers a warning of how fast the ground can shift. Mortgage margins there have halved in the past three years under the influence of securitisers such as Puma and Australian Home Loans. Established banks, including Westpac and National Australia, have seen overall margins drop by 130-180 basis points over the same period. Northern Rock, with its low costs and modest stock of old mortgages, would be one of the banks best placed to weather a similar storm in the UK. Halifax and Woolwich would not.

China softens its resolve not to devalue currency

Renminbi could weaken if balance of payments sees 'great imbalance'

By James Kynge in Beijing

Dai Xianglong, China's central bank governor, yesterday repeated Beijing's pledge not to devalue its currency but for the first time made clear that this promise was not without caveats.

With the aim of reassuring investors and bankers over China's financial health, Mr Dai said the renminbi, the country's currency, would not be devalued under current economic conditions.

"During the Asian crisis, the renminbi was not devalued and at the moment it is not necessary for the renminbi to be devalued," Mr Dai said. "As the person in charge I can say that the renminbi will not be devalued."

But he then added the clearest caveat heard from a senior Chinese leader on the renminbi issue since a pattern of routine devaluation denials began in late 1997.

"If you insist, I would say that the renminbi would only devalue when there is a great imbalance in the balance of payments of China, and there is a great increase in the cost of exports," he said.

"But I do not think these conditions exist this year," he added.

Mr Dai also threw a lifeline to some 239 international trust and investment companies (Itics) hit by a foreign credit squeeze that has caused several of them to default or miss loan repayment deadlines.

The governor said the Itics could change renminbi into foreign currency – presumably by tapping the central bank reserves – in order to honour their foreign debts.

He hoped foreign creditors would help restructure ailing Itics and said that even the Guangdong Itic, which was closed last year, could yet be restructured with the help of foreign creditors.

A Chinese ministry official said that, by attaching clear conditions to the "no devaluation" promise, Mr Dai was not preparing the world for an imminent devaluation, but merely creating some policy flexibility that Beijing may need if crisis conditions were to develop this year.

"We expect this year will be acutely difficult in terms of exports and the balance of payments," said one official, who declined to be identified. Exports rose 0.5 per cent last year, compared with a 20.9 per cent climb in 1997. In the last few months of 1998, exports posted a series of sharp year-on-year declines.

Mr Dai said economic growth this year would be about 7 per cent, compared with an official 7.8 per cent rate last year.

A key barometer of the pressures for devaluation this year will be foreign currency reserves, which grew only $5.1bn last year to $145bn. Zhu Rongji, China's premier, has ordered that these reserves must not be allowed to fall below current levels, officials said.

The reserves have been under pressure partly because of widespread currency fraud, capital flight and smuggled imports.

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Japanese watchdog launches inquiry into CSFB's business

By Gillian Tett and Naoko Nakamae in Tokyo

The Financial Supervisory Agency, Japan's banking watchdog, has launched a surprise inspection of Credit Suisse First Boston's operations in its first high-profile investigation into a foreign bank.

The inquiry will include an examination of whether CSFB has helped clients, such as Japanese banks and brokers, to conceal losses in published accounts through complex securities transactions.

CSFB refused to comment on the focus of the inspection. "We consider this to be part of the regulatory work of the FSA and are co-operating," it said.

The FSA carries out regular inspections of banks in Japan as part of its general supervisory duties, but the CSFB inquiry is its first unannounced investigation into any bank – Japanese or foreign.

According to its guidelines, the FSA only carries out surprise inspections when it is looking into compliance and risk management matters.

The inquiry comes at a particularly delicate period, when foreign financial companies are rapidly increasing their market share in Japan.

At the same time, parts of the FSA and Ministry of Finance are trying to discourage Japanese companies from concealing their losses by using counterparties or related companies to shuffle trades between accounts and time periods.

This practice has been widespread in recent years, particularly in the run-up to the end of the fiscal year.

Until now, the government has focused its investigations on Japanese companies. The FSA, for example, recently concluded an inspection of the largest 19 Japanese banks, which showed that some groups, such as Long Term Credit Bank of Japan, had sought to conceal losses by "window dressing" accounts.

However, this inspection produced extensive material about the banks' foreign and domestic counterparties, which the FSA wants to use as the basis for inspections of several foreign banks in the coming months.

The CSFB investigation is expected to take several weeks, with 10 of the FSA's 250 inspectors working on the case.

The FSA's action has delighted some Japanese brokers, who claim the government has been too lenient towards non-Japanese banks. But it is provoking considerable unease in some foreign banks.

Christopher Wells of White and Case, the law firm, said: "The old days are over. Everybody is having to shape up now and look at their compliance."

In a separate move, the Japan Securities Dealers' Association is investigating whether large Japanese brokers are conducting unorthodox trades at artificial prices for clients such as regional banks and public institutions to conceal bond losses.

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Honour guard: Crown Prince Abdullah, newly-named heir to the Jordanian throne, reviews troops at Raghadan Palace, Amman. Reuters

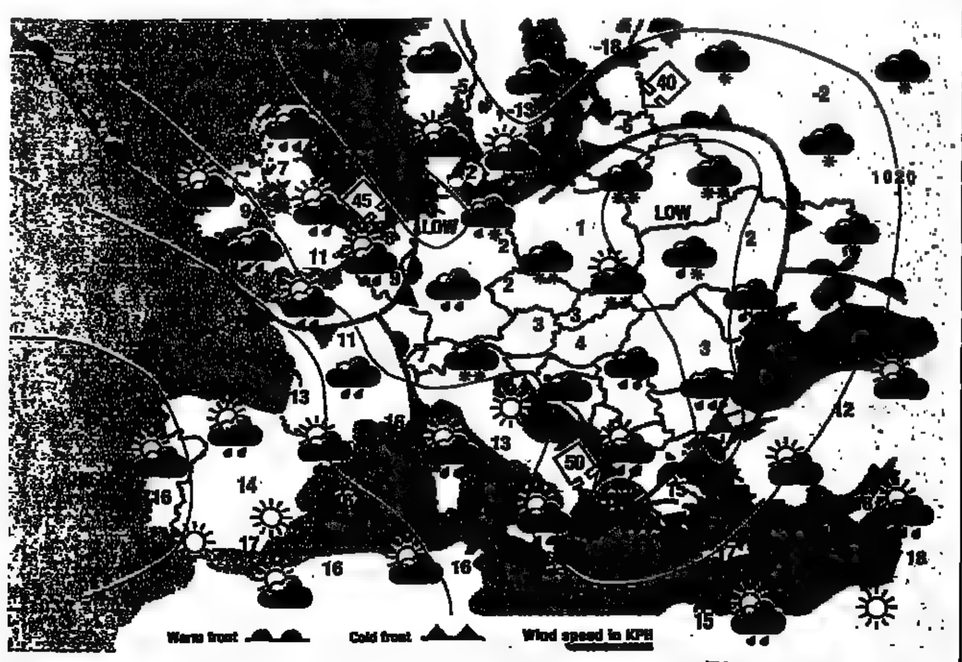
FT WEATHER GUIDE

Europe today

Scandinavia and north-east Europe will remain extremely cold with snow flurries. Most of France, the Low Countries and western Germany will have showers and longer spells of rain. Central and eastern Germany will be colder with snow, and the northern and western Alps should also have fresh snow. High pressure will keep the Iberian Peninsula fine and sunny. Northern Italy will be sunny but southern Italy and Greece will have showers and thunderstorms.

Five-day forecast

Most of north-west Europe and the Iberian Peninsula will turn colder through the weekend as extremely cold air moves south-westwards from Scandinavia. Central and eastern areas will become colder with significant snowfalls, especially in the eastern Alps. Much of the Mediterranean will continue unsettled with more thundery activity developing.



Situation at midday. Temperatures maximum for day. Forecasts by PA WeatherCentre

TODAY'S TEMPERATURES

Maximum Celsius

Abu Dhabi	Sun	23
Accra	Fair	32
Algiers	Fair	16
Amsterdam	Shower	8
Athens	Shower	15
Atlanta	Fair	20
B. Aires	Shower	27
B.ham	Shower	9
Bangkok	Cloudy	34
Barcelona	Sun	16
Beijing	Sun	4
Belfast	Shower	7
Belgrade	Shower	5
Berlin	Sleet	2
Bermuda	Fair	23
Bogota	Fair	20
Bombay	Sun	30
Brussels	Shower	9
Budapest	Rain	4
C.hagen	Sleet	2
Cairo	Sun	19
Caracas	Fair	29
Cardiff	Shower	11
Casablanca	Fair	18
Chicago	Fair	2
Cologne	Rain	6
Dakar	Sun	25
Dallas	Rain	19
Delhi	Sun	21
Dubai	Sun	25
Dublin	Shower	8
Dubrovnik	Sun	10
Edinburgh	Shower	7
Faro	Sun	17
Frankfurt	Rain	6
Geneva	Rain	7
Gibraltar	Fair	17
Glasgow	Shower	7
Hamburg	Sleet	3
Helsinki	Fair	-18
Hong Kong	Sun	22
Honolulu	Fair	26
Istanbul	Shower	12
Jakarta	Thunder	30
Jersey	Drizzle	12
Johannesburg	Thunder	26
Karachi	Sun	24
Kuwait	Fair	21
L. Angeles	Sun	19
Las Palmas	Fair	20
Lima	Cloudy	25
Lisbon	Sun	16
London	Cloudy	11
Lux.bourg	Rain	6
Lyon	Rain	9
Madeira	Cloudy	18
Madrid	Fair	14
Majorca	Sun	16
Malta	Shower	15
Manchester	Shower	8
Manila	Fair	29
Melbourne	Fair	33
Mexico City	Fair	22
Miami	Fair	28
Milan	Shower	8
Montreal	Snow	-6
Moscow	Cloudy	-2
Munich	Rain	5
Nairobi	Sun	28
Naples	Sun	13
Nassau	Fair	28
New York	Shower	9
Nice	Fair	16
Nicosia	Thunder	18
Oslo	Fair	-5
Paris	Rain	11
Perth	Sun	31
Prague	Sleet	3
Rangoon	Cloudy	34
Reykjavik	Fair	1
Rio	Fair	32
Rome	Sun	[illegible]
S. Frsco	Fair	14
Seoul	Sun	-2
Singapore	Cloudy	30
Stockholm	Fair	-13
Strasbourg	Rain	7
Sydney	Shower	27
Tangier	Fair	18
Tel Aviv	Fair	18
Tokyo	Shower	10
Toronto	Snow	0
Vancouver	Rain	5
Venice	Fair	4
Vienna	Fair	3
Warsaw	Cloudy	1
Washington	Fair	16
Wellington	Sun	19
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FINANCIAL TIMES
COMPANIES & MARKETS
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INSIDE

Alcatel under the spotlight

Alcatel, the telecommunications equipment group, publishes estimated 1998 sales and profit figures today, and they will be closely scrutinised. Just over four months ago, a profits warning triggered a stampede to sell Alcatel shares that wiped FFr70bn (€10.7bn, $12.3bn) from its market value in a day. A similar reaction to today's figures might prove terminal for Serge Tchuruk, chairman (above), whose reputation was hit by the profits warning. Page 19

Low commodity prices hit Fletcher

The prolonged period of low commodities prices has taken its toll on Fletcher Challenge. The New Zealand forestry, construction and oil conglomerate is expected to announce the sale of further assets soon as it struggles to retain its investment grade credit rating with Standard & Poor's, the US rating agency. Page 16

European share offerings pick up

The pace of international share offerings from European companies picked up sharply this week with the launch of the privatisation of Air France, bringing to nearly $5bn the amount of new equity being raised. This buoyancy contrasts with a relative slowdown in the US. Page 17; Lex, Page 14; Observer, Page 13

Indifference follows euro excitement

Britain's business community watched the launch of the euro with as much anxiety as anyone in continental Europe. But those who thought the use of the single currency would sweep rapidly through the UK economy have been disappointed. In the 28 days since it became legal currency in 11 European Union states, there has been little movement outside the financial sector. Page 23

Nigerian coal revival founders

Six years ago, a group of Welsh miners travelled to Nigeria to attempt to revive the West African country's moribund coal industry, which once produced well over 500,000 tonnes of coal a year. But as political will has faded, progress has dragged to a halt. The industry is suffering from chronic underinvestment and it is struggling to keep afloat. Page 26

Nuclear ban delay spurs Frankfurt

The German government's decision to delay a proposed ban on reprocessing nuclear waste sent shares in some utility companies soaring in Frankfurt. Page 36

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Spanish banks show robust results

Weight added to merger of Banco Santander and BCH

By Tom Burns in Madrid

Banco Santander and Banco Central Hispano, the Spanish banks planning a €30bn ($34.8bn) merger, yesterday unveiled robust 1998 results that underscore how their combined weight will create one of the largest financial institutions in the euro-zone.

Santander raised its attributable net income by 28.5 per cent to Pta142.1bn (€854.4m, $994.1m) – the highest annual profit total reported by a Spanish bank.

Financial instability and rising interest rates in Latin America – where the two banks have invested $4bn between them – prompted a 45.2 per cent drop to Pta51bn in Santander's trading income. But this was comfortably offset by a 40.8 per cent increase in earnings from fee commissions, to Pta337.9bn.

BCH, the smaller partner, continued to raise earnings with a 52.9 per cent net profit increase to Pta85.7bn. This compared with the 46 per cent year-on-year rise posted at the nine-month stage.

Juan Bastos, chief executive at Madrid broking firm Ibersecurities, said: "The figures confirm and consolidate the anticipated leadership that BSCH [as the merged group will be known] will exert over banking in Spain."

News of the merger has rocked Spain's banking sector. Banco Bilbao Vizcaya, which rivals Santander in Spain and Latin America, is understood to be reviewing its strategy with the aim of matching the initiative. Its options range from domestic takeovers to cross-border alliances within the euro-zone.

Santander delayed publication of its 1998 results, which had been due on Monday, to coincide with the release of BCH's results and underline the joint business strength of the two institutions. They will account for some 20 per cent of the domestic banking sector after they merge in April through an exchange of three Santander shares for five BCH shares.

BCH said the merged bank would be the biggest in the euro-zone by market capitalisation and the eighth largest by assets. Santander said BSCH aimed to create "a banking leader in the European market". The banks will operate more than 5,600 branches after the merger.

Analysts forecast the hidden strengths of the combined businesses would emerge in two years when Santander, which is integrating its information systems with Banesto, its domestic subsidiary, extracts similar synergies from its union with BCH.

Santander's operating income rose 23.5 per cent to Pta336.6m thanks to the group's retail banking units which lifted their contribution to total operating income from 77.6 per cent in 1997 to 81.7 per cent last year. An 11.8 per cent increase in BCH's operating income to Pta154bn was fuelled by an 18.2 per cent rise in net commissions.

Emilio Botín, Santander chairman, told bank unions there would be no redundancies as a result of the merger. Yet Santander and BCH have ample room to promote early retirement programmes to reduce staff numbers.

Microsoft overtakes GE to top FT500

By Martin Dickson in London

Microsoft has replaced fellow US group General Electric as the world's most valuable business in the FT500, the Financial Times' annual ranking of companies around the globe.

Microsoft's success comes despite the anti-trust case being pursued against the computer software company by the US Justice Department and reflects Wall Street's remarkable enthusiasm for high technology stocks over the past 12 months.

The FT500 survey ranks companies by their market capitalisation – share price multiplied by the number of shares in issue. The annual snapshot is taken at the end of September.

This year's Global 500 – which ranks the 500 biggest companies in the world – has produced huge changes, with new entrants comprising over one-fifth of the constituents.

This reflects surging US and European equity markets; poorly performing emerging markets; an economic crisis in Japan; a wave of mergers in both the US and Europe; and unprecedented valuations for high technology stocks.

The US has 244 companies in the Global 500, up from 222 last year, while Japan's tally has slumped from 71 to 48.

Companies that have shot up the rankings include Pfizer, the US manufacturer of the impotence drug Viagra, which has risen to sixth place from 22; Cisco Systems, the American high technology group, which rises to 19 from 51; and Dell Computer, the pioneer of personal computer direct selling, up from 89 to 28.

Among European companies, Royal Dutch/Shell remains the region's largest, followed by Novartis, the Swiss drugs group, and Glaxo Wellcome. Some European technology stocks rose sharply, including SAP, the German software group, up from 244 to 128 and Vodafone, the US mobile communications group, rising from 226 to 81.

Vodafone's proposed merger with AirTouch of the US would propel it much higher.

European banking stocks generally suffered sharp declines, because the snapshot was taken in the wake of Russia's default on its domestic debt obligations, which hit the sector hard.

Survey, separate section

Sony warns of $360m loss after electronics sales slow

By Alexandra Nusbaum in Tokyo

Sony, the Japanese consumer electronics company, yesterday revealed depressed third-quarter figures and warned that it expected to post a Y41bn ($360m) operating loss – its first since 1994 – in the fourth quarter.

The strong yen, slow sales, fierce competition and production problems held back Sony's electronics business and depressed third-quarter results in spite of strong performance in the games division.

On a consolidated basis, sales were down 3.2 per cent to Y1,948bn. Operating profit fell 19.8 per cent to Y179bn and pre-tax profits rose 8.3 per cent to Y232bn. Net profits increased 1.8 per cent to Y112bn, thanks to exceptional gains of Y58.7bn and Y30.7bn on securities.

The results were in line with expectations and Sony's shares closed Y160 higher at Y8,060. However, the stock has tumbled 40 per cent, or Y5,430, from its 12-month high of Y13,490 on July 28.

The company said sales would have been Y54bn higher than the reported figure and operating income Y2bn lower, had the the yen stayed at the same level as in the previous quarter.

In the September to December period, the yen rose about 5 per cent against the dollar and 4 per cent against sterling. For the fourth quarter, the company has hedged against currency swings between Y114 and Y117.

For the first time, the games division generated a larger proportion of operating profits than the electronics division. Electronics accounted for 66 per cent of sales, or Y1,279bn, and 38 per cent, or Y67.5bn, of operating profit. The games division represented 16 per cent of sales, or Y314bn, but 44 per cent, or Y78.4bn, of operating profit.

The audio division suffered from slow sales in Latin America, Russia, Eastern Europe and Asia (excluding Japan), as well as price competition in the US and Europe. There was no sign of a recovery in these markets.

However, sales of digital still cameras, DVD-video players and camcorders in the US and Europe boosted revenue in the video division by 8.7 per cent.

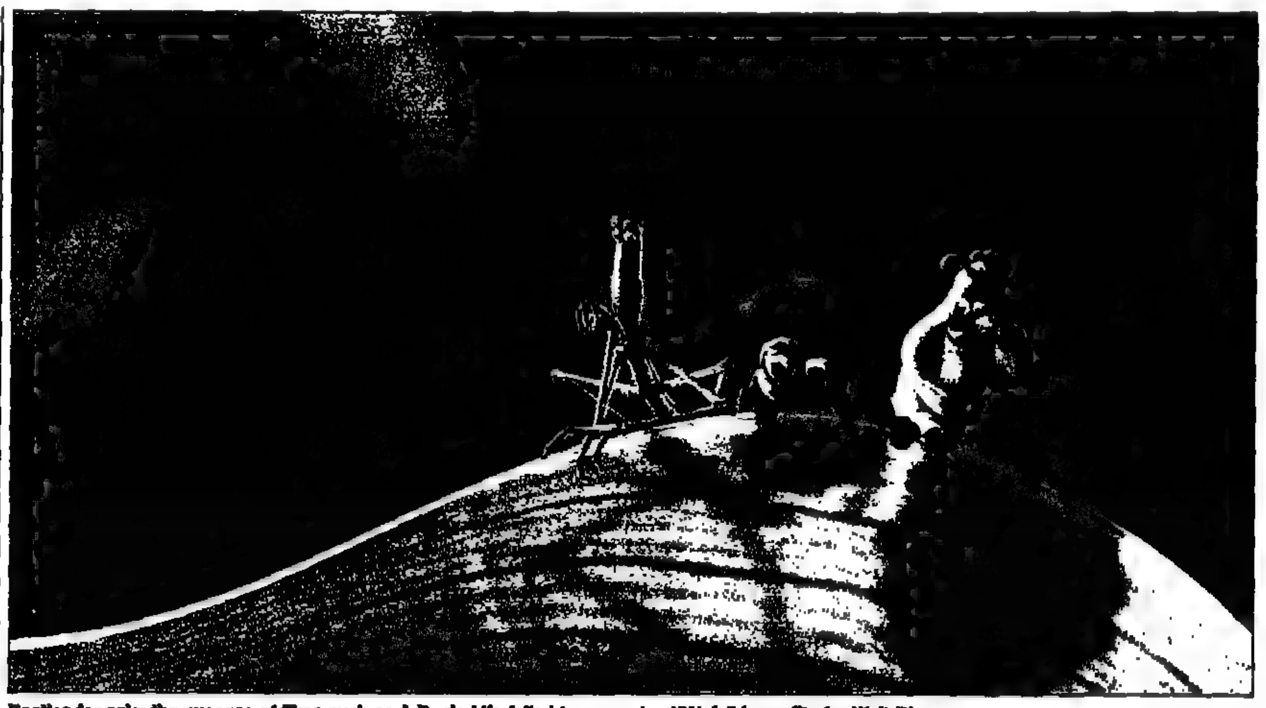
Strong sales of PlayStation games consoles continued in Japan, US and Europe in the third quarter, but sales of software for the computer games system slowed in Japan. Sony raised estimates for shipments of PlayStation consoles by 1m units to 22m for the year ending March 1999.

Revenue in the music group rose 16.3 per cent to Y236bn with successful releases from artists Mariah Carey, Celine Dion and George Michael. Operating profit was up 22.2 per cent to Y29.7bn.

In the insurance business, the number of new contracts increased but the return on investment was low due to revaluation losses on investments.

As a result, revenue rose less than 1 per cent to Y74.5bn. Operating income was down 74.6 per cent to Y3.5bn for the nine months ending December 1998.

The company forecast fourth-quarter sales at Y1,384bn. For the year ending March 1999, Sony estimated sales of Y6,700bn, down 1 per cent from the previous year.



Beetles for sale: the success of films such as A Bug's Life failed to prevent a 19% fall in profits for Walt Disney

Disney first-quarter profits fall 19%

By Christopher Parkes in Los Angeles

Walt Disney has paid the price for last year's record-setting purchase of American football television rights and its extravagant film marketing policies with a 19 per cent drop in first-quarter profits.

A weak showing from its core creative-content business, which accounted for 45 per cent of revenues, contributed to a decline that was stemmed only by record results from theme parks.

Excluding a one-time gain, earnings per share tumbled 38 per cent to 23 cents – 1 cent below analysts' estimates – compared with 37 cents in the three months to the end of December 1997.

Net income of $622m, compared with $755m a year earlier, was bolstered by a $345m non-cash benefit from share dealings associated with its ambitious move to become an internet portal provider.

Despite popular successes with films such as *A Bug's Life*, *The Waterboy* and *Enemy of the State*, which have to date generated about $420m in ticket sales, the creative division's operating income fell 39 per cent to $430m.

Mighty Joe Young, one of its more lavishly budgeted and marketed productions, is struggling to cover its production costs.

Revenues from film and associated merchandising and retailing fell 2 per cent to $2.94bn and group sales increased 4 per cent to $6.6bn. The company said the creative division was also affected by lower home video sales and reduced retail business, mainly in the US.

Operating profits from broadcasting, which includes the ABC national network and the ESPN international cable sports channels, fell 48 per cent to $265m, although revenues rose 7 per cent to $2.2bn.

The company said the main problem was the failure of advertising revenue growth to meet the costs of long-term TV rights to broadcast football, for which Disney agreed to pay more than $9bn in last year's auction.

As news broke that Euro Disney – 39 per cent owned by the US group – was likely to build a second park in France, Michael Eisner, chairman, highlighted the record results from the existing range of theme parks and resorts, which reported revenues up 14 per cent at $1.4bn and profits 17 per cent higher at $335m.

The division was boosted by the Animal Kingdom attraction, opened last spring in Florida, and new attractions and hotels at the nearby Walt Disney World.

Lex, Page 14

Liffe deploys new weapon in 'battle of the indices'

By Edward Luce and Bertrand Benoit in London

The London International Financial Futures and Options Exchange is to launch derivatives based on the euro-zone index of Morgan Stanley Capital International, a leading provider of benchmarks for the global equity markets.

The move suggests that the London-based derivatives market is no longer confident its FTSE-based Eurotop contracts, will become the leading benchmark for the euro-zone. This means euro-zone benchmark contracts from three providers will be competing on European derivatives exchanges.

The so-called "battle of the indices" is a key element in the tussle between Liffe and its two continental competitors, Eurex and Matif, to become the euro-zone's leading derivatives exchange. Volumes on the emerging pan-European stock market are expected to dwarf combined volumes on the national stock exchanges.

Most European investors are expected to track the stock exchange's movements through a benchmark index and will hedge their equity exposure through the use of listed derivatives contracts.

Officials at Liffe said that the largest US fund managers had made it clear MSCI was their preferred benchmark over the Eurotop 100 and Eurotop 300 futures, based on indices from FTSE International, a business 50 per cent owned by the Financial Times. MSCI was also favoured over the Dow Jones Stoxx 50 contracts listed on Eurex and Matif.

Officials pointed to a recent Merrill Lynch/Gallup survey of Europe's leading investors which showed that 56 per cent of fund managers were tracking the MSCI's euro-zone benchmark against just 12 per cent for FTSE International and 5 per cent for Dow Jones.

However, fund managers said the "battle of the indices" was far from over. Unlike US investors, most continental European investors are unaccustomed to using benchmarks for their investments.

"It is very early days to say who is going to win this one," said Bryan Allworthy, European equity analyst at Merrill Lynch. "FTSE must be in with a chance and you have to remember that we polled only continental fund managers. If we had surveyed the UK, you would probably get more weight on FTSE."

Liffe has been worried by the persistence of low trading volumes on its two Eurotop derivatives contracts which have been comfortably outstripped by volumes on the Stoxx 50 futures listed in Paris and Frankfurt. The problem has been compounded by the trading of Eurotop contracts on its "open outcry" floor trading system. They will switch to Liffe's new screen-based trading platform in May. By contrast, Stoxx 50 was traded on electronic platforms from the start.

Eurotop 100 and 300 include a large number of UK companies while Stoxx and MSCI have indices confined to companies based in the euro-zone.

Matif aims at euro-zone, Page 17

IFC wins battle over Thai group debt plan

By Peter Montagnon, Asia Editor, in Washington and Ted Bardacke in Bangkok

The International Finance Corporation, the private-sector lending arm of the World Bank, has insisted on pushing through objections to one of the largest corporate debt restructurings since the crisis in Asia broke, despite misgivings by many of the other creditors.

Assaad Jabre, vice-president in charge of portfolio management, said the IFC had persuaded other leading creditors of Thai Petrochemical Industry to take up its objections to the company's proposed $3.2bn rescheduling.

But a deal was likely to be further delayed while Prachai Leophairatana, TPI's controlling shareholder and chief executive officer, decided how to respond to the new conditions, he said.

Mr Prachai, an old-style Thai businessman, is also a leading senator opposed to the reform of the country's bankruptcy and foreclosure laws.

Nearly 150 creditors had been expected to vote this week on a plan to restructure TPI's debt through an equity swap that would leave them with 30 per cent control and extend maturity on the company's debt.

But the IFC, which with a syndicate of lenders holds nearly $500m of the debt, wanted additional safeguards including a right to declare an accelerated default and the opportunity to remove Mr Prachai from control.

The original plan had been formally endorsed by Thailand's central bank and all Thai creditors supported it. For some, including Bangkok Bank, the chance to return TPI loans to performing status as soon as possible would make a serious dent in their non-performing loan levels.

The World Bank, IFC's main shareholder, has also been an advocate of quick action on debt restructuring in Thailand.

Yet the $96m of debt, which the IFC holds directly in the company, was probably the institution's largest single commitment anywhere, Mr Jabre said. "We cannot afford to sign off on a rescheduling which will not stand the test of time."

In what bankers took to be a carefully elaborated compromise, he said the IFC had persuaded the steering committee of leading creditors to support a proposal that a quorum of 20 per cent of the debt holders by value should be sufficient to declare a formal default. Though this means the IFC cannot declare a default on its own, it only needs a small amount of support from other creditors.

The new proposal also allows for creditors to take control of the company if the rescheduling conditions are not met. Mr Jabre denied reports that the IFC had sought the resignation of Mr Prachai. This was never its formal position, he said.

IFC said it would have nothing against Mr Prachai personally if he succeeded in making the rescheduling work and paying creditors back. "We are going to give him a chance," Mr Jabre said.

Mr Prachai, advised by Chase Manhattan Bank, is likely to reject the new conditions, arguing that he has support from more than three-quarters of TPI's creditors for a rival, company-sponsored proposal. That support would allow him to override the IFC's position in bankruptcy proceedings if Mr Prachai decided to pursue the lengthy process of a court-supervised rehabilitation.

Kinugawa stake sold by Nissan

By Alexandra Harney in Tokyo

Nissan, Japan's second largest carmaker, is selling part of its stake in Kinugawa Rubber, an affiliated maker of rubber car parts, in its latest effort to restructure operations and reduce its consolidated debt burden.

Nissan said it planned to sell a 6.5 per cent stake, or 4m shares, to Toyo Tyre and Rubber, a tyre company affiliated with Toyota Motor. At yesterday's share price of Y115, the investment would be worth Y460m ($4m).

The deal leaves Nissan the largest shareholder in Kinugawa with a 22.2 per cent stake.

Kinugawa has been hit by the collapse in car sales and its reliance on Nissan, which has scaled back production. In the year to March 1998, it recorded Y1.4bn in net losses on turnover of Y53.5bn.

Nissan said the move would generate synergies with Toyo Tyre & Rubber, Japan's fourth largest tyre manufacturer in which it owns a 2.3 per cent stake.

The equity transfer follows the sale of part of Nissan's holdings in Nissan Texsys, a loom manufacturer, to Toyoda Automatic Machine Works, a machinery maker affiliated with Toyota Motor, this month.

Nissan aims to lower its consolidated interest-bearing debt burden of Y2,500bn to Y1,500bn by 2000. It is negotiating with DaimlerChrysler, the US-German conglomerate, to sell its 39.8 per cent stake in Nissan Diesel, an engine and truck affiliate.

Fletcher faces challenge to make the grade

S&P has served notice on the New Zealand conglomerate over debts and exposure to weak commodities, writes **Mark Reynolds**

Fletcher Challenge, the New Zealand forestry, construction and oil conglomerate, is expected to announce the sale of further assets in the first quarter of 1999 as it struggles to retain its investment grade credit rating with Standard & Poor's, the US rating agency.

S&P warned Fletcher late last year that it needed to reduce debt significantly in 1999 to cushion itself from a prolonged period of low prices in many of the commodity-related sectors in which it operates.

Fletcher executives have told analysts they were taking the S&P warning "very seriously" and that preserving an investment grade rating with S&P was "sacrosanct".

Measures to reduce debt over the next six months are expected to include the sale of at least some of Fletcher's investments in the Canadian pulp and paper industry.

The group owns a half-share in the Vancouver-based Fletcher Challenge Canada, and is trying to sell some of the C$1bn (US$658m) investment in favour of concentrating growth in Asian and Australasian markets.

Michael Andrews, Fletcher chief executive and chairman of Fletcher Canada, has signalled that the company might quit or reduce its Canadian pulp business to focus on paper and newsprint operations. The Canadian company's operations are split about half and half between pulp and paper.

People close to Fletcher Challenge say Mr Andrews has been talking to a number of companies about selling the Canadian pulp operations and perhaps consolidating the remaining paper business with a new joint venture partner.

Munksjoe, the Swedish forest products group, has been mentioned as a buyer for the pulp operations, while Oji Paper of Japan, a member of the Mitsui group, is a potential partner in Asian paper operations.

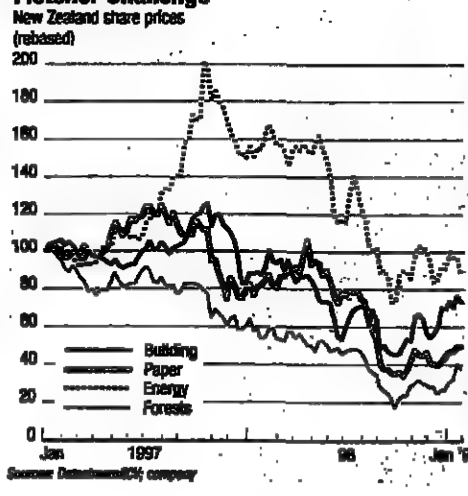
Reshaping the Canadian investments would free up to NZ$500m (US$268m) and allow Fletcher to exceed a target of reducing its debt-to-capital ratio to about 35 per cent by the year end at June 30. The ratio was 42.6 per cent on June 30 last year.

The group has four divisions – energy, paper, forests and building – with shares in each division traded separately on stock exchanges in New Zealand and in the US in the form of American Depository Receipts.

The so-called letter stock arrangement allows investors to value specific assets even though the four operations are not separate legal entities.

The benefit in this arrangement for Fletcher, compared with totally separating the divisions, is that the companies can borrow as a group, and this generally gives financiers greater security.

Fletcher Challenge
New Zealand share prices (rebased)



Source: Datastream/ICV

Results by division

	1998	97
Building		
Revenue (NZ$m)	3,015	3,342
Pre-tax profit (NZ$m)	133	125
Net earnings per share (NZc)	34.8	37.0
Energy		
Revenue (NZ$m)	1,035	1,089
Pre-tax profit (NZ$m)	93	317
Net earnings per share (NZc)	28.7	78.3
Forests		
Revenue (NZ$m)	487	573
Pre-tax profit (NZ$m)	48	185
Net earnings per share (NZc)	-3.8	17.8
Paper		
Revenue (NZ$m)	2,684	3,770
Pre-tax profit/loss (NZ$m)	-184	-453
Net earnings per share (NZc)	-13.2	-88.1

Year end June 30

But analysts are concerned that a poor performance in one or two divisions would drag down the overall credit worthiness of the group.

Fletcher has already repaid some debt this financial year, after selling its UK paper operations to Metsa Serla, the Finnish forestry group, in November for $295m. It has written off $564m on the fine paper operations in two years.

Investors have been particularly concerned by weak earnings in the group's forest division, which recorded a NZ$3.8m loss in the financial year to June due to a slump in worldwide log and forest product prices.

The earnings slump forced Fletcher and China's Citifor to inject a further $126m into a forestry partnership they have in New Zealand so that the company could meet banking covenants.

The debt restructuring involved the two partners buying out a third in Brierley Investments. Brierley received 46.7m new shares in Fletcher Forests for its 25 per cent stake in the 188,000 hectares of forests.

Stephen Hudson, an equities analyst with Salomon Smith Barney in Auckland, says it is clear that the Fletcher Challenge group has set stiff debt curbs within each of its divisions.

If debt breaches those levels, the individual divisions will have to either sell assets to repay debt or find fresh capital to strengthen the group balance sheet.

Mr Hudson also notes continued underlying concerns about the earnings outlook for the Fletcher companies – for example, on a consolidated basis the divisions' shares are trading at only 60 per cent of the group's book value.

The share values appear to reflect the state of many of the markets in which Fletcher operates.

The construction industry in New Zealand is at a cyclical low, oil prices are at their lowest level for more than a dozen years and pulp, paper and log prices internationally are close to the bottom of cyclical troughs.

"There are some fundamental earnings problems for the group this year," says Stuart Graham, analyst with Warburg Dillon Read.

Given this, Fletcher is expected to concentrate on reducing costs across the group.

In December, it announced it expected to save NZ$100m by centralising the purchase of phone services in the four divisions.

Similar arrangements for the purchase of electricity, travel, vehicles and freight services are expected to be put in place over the next few months.

NEWS DIGEST

JAPAN

Marubeni secures Y500bn financing deal with banks

Marubeni, the Japanese trading company, is to sign a Y500bn ($4.4bn) commitment line with 10 Japanese banks in an effort to reduce financing costs and ensure access to funds as credit tightens. Marubeni said it expected to sign the commitment with a syndicate of 10 banks led by Fuji Bank by early next month. Fuji Bank and Marubeni are both members of the Fuyo *keiretsu* grouping of companies.

The move highlights the need by Japanese trading companies to ensure they have access to sufficient funds at a time when many Japanese companies face a credit squeeze at home and lower credit ratings.

Marubeni said the commitment line would allow it to reduce cash in hand and lower financing costs. The company had raised its cash in hand from Y298.7bn six months ago to Y436.7bn. Once the commitment line is signed, Marubeni plans to reduce its cash level by 40 per cent. Marubeni also expects group interest-bearing debt to fall by Y600bn-Y800bn from Y4,900bn by the end of March. Late last year, Nissho Iwai, which faced a credit downgrading by Moody's to below investment grade status, signed a Y600bn commitment line with its banks. Other trading companies have signed similar deals.

Michiyo Nakamoto, Tokyo

FOOD AND PHARMACEUTICALS

JT to buy Asahi units

Japan Tobacco is to acquire Asahi Foods and seven other Asahi Chemical group companies on July 1 for an undisclosed sum. The move reflects JT's strategy of diversifying into foods and pharmaceuticals to reduce its dependence on the mature domestic tobacco market.

State-controlled JT has been losing market share to rivals such as Philip Morris and RJ Reynolds since the liberalisation of the Japanese tobacco market in 1985. The recent tax rise of about 8 per cent is likely to reduce demand further.

Although the sales of the companies involved are considered too small to lift JT's earnings, analysts welcomed the move given the bleak prospects for the industry. Keiko Sasaki, analyst at ING Barings, said: "The impact on earnings will be limited, as none of the acquired companies is strong in any particularly area. However, they are all profitable, unlike some of JT's other food companies."

The deal is expected to lift JT's sales from non-tobacco products to Y100bn ($876m), according to the daily newspaper Nikkei. Tobacco sales account for about Y3,500bn.

Julie Hess, Tokyo

TOLL ROADS

UEM allowed to charge more

UEM, the Malaysian toll road operator forced by the government to bail out its troubled parent, Renong, the well-connected infrastructure conglomerate, will be able to charge 0.75 sen more per kilometre on the North-South Expressway, Mahathir Mohamad, prime minister, said yesterday. But the public, which pays 10.5 sen per kilometre on the highway running the length of peninsular Malaysia, sees the impending rise as a further attempt by the authorities to provide support to the politically linked companies at their expense.

However, the government yesterday said it was meeting 60 per cent of the operator's needs, leaving the public to cover 40 per cent.

The companies have been hit hard by Malaysia's economic crisis. UEM said in November it would defer interest payments on loans totalling M$2.92bn (US$768m) while it restructures its debt over the next six months.

Sheila McNulty, Kuala Lumpur

NEWS DIGEST

JAPAN

Marubeni secures Y500bn financing deal with banks

FOOD AND PHARMACEUTICALS

JT to buy Asahi units

TOLL ROADS

UEM allowed to charge more

DERIVATIVES TRADING EXCHANGE HOPES TO CAPITALISE ON CONVERGENCE OF GERMAN AND FRENCH MARKETS

Matif aims for euro-zone bond benchmark

By Samer Iskandar in Paris

Matif, the French derivatives exchange, yesterday announced a series of measures aiming to establish its products as benchmarks in the now unified market for government bonds of the 11 euro-zone countries.

By revamping the notional 10-year bond contract, its leading bond product, Matif is seeking to capitalise on the convergence of the German and French markets following the launch of the single currency.

The exchange is also aiming to capitalise on alleged shortcomings of the German bund future, Europe's most actively traded bond future. Pascal Samaran, Matif chief executive, said the bund future is "going to have problems because of its success".

Investors and traders have gradually adopted the bund contract, traded on the rival German-Swiss exchange Eurex, as a proxy for euro-zone government bonds, which has caused liquidity problems on the underlying cash market for bunds.

Mr Samaran predicted market participants would "get their fingers burnt" at the next squeeze on the bund. A squeeze occurs when there are not enough cash bonds available in the market to satisfy demand from futures traders.

Matif yesterday widened its pool of deliverable bonds to include German bunds, in addition to French OATs. Mr Samaran said the move would reduce the risk of a squeeze on the underlying bonds, because the Euronotionnel's pool of deliverable bonds would be twice as large as that of the bund contract.

"It's a long shot, but the strategy could eventually pay off," said a futures trader at a US bank in Paris. "The damage was limited the last time around but if there is another serious squeeze on bunds a lot of people might think more seriously about moving some of their business to Matif."

Matif yesterday lowered the coupon on its contract – which was renamed Euronotionnel – from 5.5 per cent to 3.5 per cent, bringing it in line with yields on recently-issued government debt.

The Matif, which closed its trading floors in favour of a fully-computerised platform last year, aims to triple the number of terminals linked to its trading system to 1,500 by the end of this year.

European share offerings pick up

By Vincent Boland

The pace of international share offerings from European companies picked up sharply this week with the formal launch of the privatisation of Air France, bringing to nearly $5bn the amount of new equity being raised in a series of public and private sector transactions.

The pick-up in activity reflects the strength of European stock markets and renewed investor demand for new issues after a faltering end to the market in 1998. In addition, at least 50 German companies are believed to be preparing to list on the Neuer Markt smaller companies market in Frankfurt this year, according to bankers.

The European market's buoyancy contrasts with a relative slowdown in the US. Some bankers have predicted that the issuance of new equity from US companies could fall by up to 20 per cent this year if the market for internet stocks collapses.

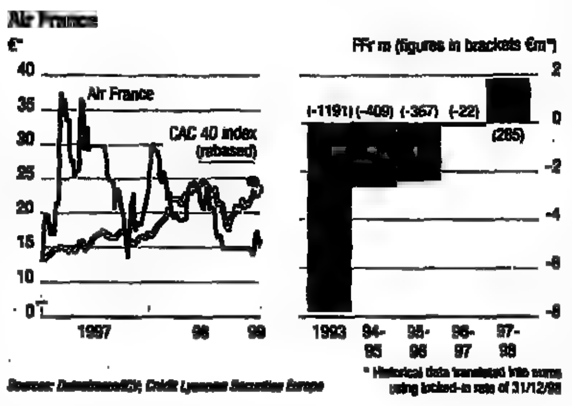
The Air France offering is the first significant privatisation transaction of 1999 and is set to raise at least €600m for the French government.

The deal values the carrier at €3.3bn-€3.7bn based on an indicative price range of €12-€14.20 a share. That was at the low end of market expectations of up to €16.50 a share and at a substantial discount to the European airline sector average. Salomon Smith Barney, the investment bank, has set a target for the shares of €20.50.

Analysts said the relatively low price suggested the government wanted to win strong employee backing for the issue. A dispute with the pilots' union delayed the airline's stock market listing last year.

About 33 per cent of the company is expected to be owned by private and institutional shareholders when the initial public offering and associated transactions – including an expected move by Banque Nationale de Paris to turn a holding of Air France convertible bonds into equity, giving it a stake of about 4 per cent – are completed.

Société Générale, the French bank, is acting as global co-ordinator for the Air France offering.



The Air France deal follows confirmation earlier this week by United Pan-European Communications, Europe's biggest private cable TV provider, that it would double the size of its IPO next month to $1.25bn after forming a strategic alliance with Microsoft.

Equant, operator of one of the world's most extensive voice and data networks, is to float an additional 17.4 per cent of its shares.

The transaction, which follows the company's IPO last year, could raise $2.8bn for the selling shareholders, the Sita Foundation and Morgan Stanley Dean Witter Capital Partners.

An IPO by Estonian Telecom, already under way, is poised to raise up to $227m. The offering will test investor demand for equity from emerging markets.

Chemapol hit by insolvency

By Robert Anderson in Prague

Chemapol Group, the heavily indebted Czech chemicals conglomerate, was yesterday declared insolvent, bringing closer the threat of the country's biggest corporate failure.

The Prague district commercial court ruling against the holding company could eventually lead to the break-up of the whole group, which employs 15,000 people and is the fourth biggest Czech company by revenue.

In a sign that the soon to be privatised Czech banks are finally losing patience with their most indebted clients, Ceskoslovenska Obchodni Banka (CSOB) forced Chemapol a.s, the trading arm, into bankruptcy in October in pursuit of debts of around Kč3.5bn. Last month it then sued for Kč800m ($25.6m) guaranteed by the holding company, rapidly forcing it into insolvency yesterday.

CSOB said it had been very close to a settlement but "we want to make sure they are really able to pay what they promised to". Chemapol, which can appeal, has three months to satisfy the court it can meet its obligations.

Credit Lyonnais, the French bank, last week also began a suit for repayment of a loan of more than Kč1bn, and Komercni Banka said yesterday it would support the insolvency proceedings.

However, the company's main creditors – Investicni a Postovni Banka (IPB), owned by Nomura Securities of Japan, and Konsolidacni Banka, the state bad debt bank – have so far not taken any action.

IPB, which is also an 18 per cent shareholder of Chemapol, said yesterday CSOB's action was "an unfortunate move which will eventually lead to great harm to the Czech economy and may have deep social repercussions".

Chemapol Group is the republic's most indebted corporate with Kč5.5bn in loans owed by the holding company, more than double its share capital.

New Holland sees job cuts

By Peter Marsh

New Holland of Italy, the world's second biggest maker of tractors, warned yesterday of more job losses this year after announcing a 30 per cent fall in pre-tax profits in 1998, because of weakness in the world's $44bn a year agricultural machine business.

Umberto Quadrino, chief executive, said an immediate turnround was unlikely, with demand depressed by economic problems in Asia and Russia, and weak investment in machinery by farmers in the US and Europe.

New Holland is 69 per cent owned by Fiat, the Italian automotive group, with the remainder of the shares traded on the New York stock exchange. In the year to December 1998 it recorded a pre-tax profit of $453m, compared with $640m in 1997. Sales fell to $5.71bn from $6bn.

Other big tractor makers – including US groups Deere, Agco and Case – warned recently of poor market conditions, worsened by weak grain prices which are holding back farm incomes.

New Holland also has a big construction equipment division, boosted last year through the purchase of Orenstein & Koppel, a large German excavator manufacturer. The acquisition made New Holland one of Europe's biggest four makers of heavy construction equipment.

Mr Quadrino said the group would continue to cut staff, following 1,300 job losses in the second half of 1998. The company's workforce now totals about 19,000 worldwide.

New Holland expects the US tractor market to decline 15 per cent this year, while the number of machines sold in Europe will probably fall 5 per cent. Mr Quadrino said he thought the Asia-Pacific market had "bottomed out", after dropping to a market of 16,000 tractors in 1998 from 29,000 the year before.

He added a recovery in world demand was unlikely before the end of this year.

Payout boosts MoDo

By Tim Burt in Stockholm

Shares in MoDo yesterday rose more than 11 per cent after the Swedish paper group announced a capital restructuring and a SKr3.11bn ($402m) payout to investors through an extra dividend.

The company, which also announced increased pre-tax profits from SKr2.03bn to SKr3.34bn, said the dividend payout would address market concerns about the strength of MoDo's balance sheet.

MoDo's most commonly traded B shares rose SKr20 to SKr201 after Bengt Pettersson, chief executive, said the SKr35-a-share dividend pay out (coming on top of a SKr10-a-share full-year distribution) would increase the group's gearing from 20 per cent to 50 per cent.

"We did not need to have such a strong balance sheet and this will improve our return on equity," he said.

Mr Pettersson was speaking after the company reported operating profits up from SKr2.33bn to SKr2.48bn on sales of SKr22.7bn for 1998, against turnover last time of SKr21.9bn.

The pre-tax figures were flattered by reduced financial costs.

The chief executive also outlined a company strategy to concentrate on newsprint and magazine paper, through its Holmen Paper subsidiary, and paperboard.

Those two activities contributed profits of SKr1.51bn and SKr590m respectively in 1998, compared with SKr1.2bn and SKr639m in the previous year.

Mr Pettersson indicated that the group was open to alliances or a possible merger of its fine paper activities, which have been adversely affected by volatile demand in south-east Asia and Russia.

"Such a move would free us up in this industry," he said.

"We will focus our business more closely on those product areas where we are strongest."

Erste Bank in €100m issue

By Clay Harris, Banking Correspondent

Erste Bank, Austria's second largest bank, yesterday launched a €100m ($115.7m) issue of preference shares, which could boost the use of the instruments as Tier 1 capital.

Warburg Dillon Read, bookrunner, said it was the first such issue for an Austrian bank and the first by any bank to be offered internationally since the Bank for International Settlements announced guidelines in October for Tier 1 preference shares issued through special purpose vehicles.

Previous issues, by Spain's Banco Santander and Banco Bilbao Vizcaya and Germany's Westdeutsche Landesbank and Bayerische HypoVereinsbank, had been aimed at domestic investors.

WDR said the issue was nearly twice subscribed, with most going to private clients throughout Europe.

Erste said the shares were a "form of 'senior' equity," which had lower financing costs than equity or conventional preference shares. The issue would increase its Tier 1 capital by 0.4 percentage points to more than 6.4 per cent and its solvency ratio from 10.9 per cent to 11.5 per cent.

Issued at par, the non-voting shares pay a non-cumulative quarterly dividend of 6.625 per cent. They are perpetual, and cannot be called by the issuer for at least five years.

COMPANIES & FINANCE: THE AMERICAS

Compaq sales outperform market

By Louise Kehoe

Compaq Computer reported a 48 per cent jump in fourth quarter sales with revenue growth three times that of the market as a whole, according to Mr Earl Mason, chief financial officer.

This underlined the trend toward consolidation in the PC sector, he said, as a handful of the largest manufacturers were growing rapidly and smaller companies were falling by the wayside.

Compaq also reported much higher than expected earnings, cementing its role as the world's second largest computer company following last year's acquisition of Digital Equipment.

The acquisition, completed in June, was accretive in the fourth quarter, said Mr Mason, and integration was well advanced.

The results appeared to resolve any remaining questions about Compaq's ability to manage big mergers successfully. Worldwide sales for the quarter were $10.9bn, up from $7.3bn. Quarterly net profits rose 14 per cent to $758m; earnings were 43 cents a share against 42 cents last time. Wall Street had predicted earnings of about 38 cents.

However, Compaq benefited from a lower than expected tax rate in the fourth quarter, analysts said. Compaq's shares were trading at $48¼ in mid-session, following the earnings report, down $¼.

"The synergies from the Digital acquisition are becoming more and more evident in our financial performance," said Mr Mason.

Growth in product revenues over the previous quarter was exceptionally strong, and the combined company also benefited from strong growth in Digital's services business, he said.

Gross margins improved by 1.5 percentage points from the prior quarter, to 26.4 per cent. This was in part due to higher-margin products from Digital, but also related to cost savings. Since the acquisition, Compaq has shed 13,500 workers, and is planning a further 3,500 job losses.

In Compaq's flagship personal computer business, fourth-quarter growth was "extraordinary", said Mr Mason. Worldwide retail sales were up 100 per cent. "The internet is the driver," he said. Consumers purchased low-cost PCs to access internet web sites.

"The advantages of scale are overwhelming," Mr Mason said. The largest computer companies were able to buy components at substantial discounts compared with prices paid by smaller competitors, he noted.

Microsoft to use cash to speed up networks

By Louise Kehoe in San Francisco

Bob Herbold: 'You can expect to see more of this' AP

Microsoft's $800m investments this week in two European cable television operators are just the beginning. The world's largest software company has plans to use some of its $19.3bn cash hoard to encourage communications companies around the world to accelerate the deployment of high-speed networks.

For Microsoft, slow deployment of high-speed networks looms as a potential barrier to growth. Networks capable of transmitting data, voice and high-quality video will be essential for the next generation of online computer applications.

"You can expect to see more of this," said Bob Herbold, chief operating officer, referring to Microsoft's $500m investment in NTL, the UK cable system operator, and the $300m stake it plans to take in UPC, a Netherlands-based cable company.

Microsoft had been talking to other cable companies and was "ready to talk to any company, anywhere in the world, that shares our goals of increasing the bandwidth of networks", said Mr Herbold.

"Microsoft has no intention of becoming a big player in the cable-television business," he stressed. Nor does it favour cable over alternative networks such as telephone or satellite communications.

Indeed, in December Microsoft made a $200m investment in Qwest, the US telecommunications group. In November it invested an undisclosed amount in a joint venture it formed with Qualcomm, a developer of digital wireless communications technology, to create wireless data communications services for mobile computer users.

Rather than picking winners and losers in the communications sector, Microsoft was attempting to boost spending worldwide on the next generation of high-speed networks, said Mr Herbold.

Broadband networks could, for example, enable e-commerce web sites to include video-clips. Another application is desktop video conferencing, enabling workers at remote locations to collaborate, share data and speak to one another face-to-face via computer screens.

Moreover, the deployment of these high-speed networks could create new opportunities for many of Microsoft's products. "These are strategic investments for Microsoft," Mr Herbold said, aimed at "increasing the use of information technology in general".

While the current focus of Microsoft's investments was on high-speed networks, there might be other priorities in the future, he added, but the goal was always to create market environments in which demand for Microsoft products would grow.

However, such investments represent only part of Microsoft's broad investment strategy. The software giant has also made at least a dozen acquisitions over the past two years as well as taking stakes in more than 30 other technology and software companies.

Most of these investments fall into two categories, said Mr Herbold – larger acquisitions aimed at rounding out Microsoft's product portfolio and much smaller technology acquisitions.

The latter represented moves by Microsoft to "acquire [software] code or individuals".

Among the companies Microsoft has bought to expand its product line, WebTV, Hotmail and Front Page stand out. Each has complemented the "home grown" product portfolio and become an important element in Microsoft's growth in internet software and services.

Less visible, but also important, are Microsoft's activities in the venture capital arena. The company has invested directly and through established venture capital funds, in numerous high-tech start-ups.

While Microsoft has not disclosed the value of its investments, it appears to be stepping up its purchases of equity stakes and outright acquisitions, despite the US government antitrust trial in Washington. Legal problems had had no influence on Microsoft's investment strategy, Mr Herbold said.

AT&T to sell 'bundles'

By Richard Waters in New York

When AT&T came up with a low-cost, single-rate cellular telephone plan last year, it turned the US wireless industry on its head. Now Ma Bell is trying to hit another home run.

Its latest attempt to grab back the initiative from faster-growing rivals came with yesterday's launch of its first broad marketing plan to sell a "bundle" of services to residential customers.

Similar moves by rivals have had only limited success. But AT&T's broader range of services and more extensive wireline and wireless networks put it in better position to determine how Americans pay for communications services, says Brian Adamik of Yankee Group, a telecommunications consultancy.

Called AT&T Personal Network, the plan lumps a number of services together, including long distance, wireless calls (but not including roaming services) and international calls to Canada, the UK and parts of Mexico.

All calls will be priced at 10 cents a minute, with a fixed monthly fee of $29.99 – or $44.95 including flat-rate internet access.

One aim, said John Zeglis, AT&T president, is to halt the rapid turnover of customers and the savage price competition bedevilling the US long-distance business.

AT&T's own consumer long-distance revenues slid nearly 4 per cent in 1998. The new plan should provide the "glue" that prevents customers switching, said Mr Zeglis.

Ma Bell also has its sights on boosting revenues by increasing its share of the communications spending of the US' 30m wealthiest households. Selling wireless services to wireline customers and vice versa – and eventually cable TV to both – would increase revenues at a minimal increase in marketing cost, Mr Zeglis said.

Earlier attempts to "bundle" services in the US have met with mixed success. MCI WorldCom claims 10m customers for its MCI One service, an early entrant in 1996 – but most buy only long-distance and one or two additional features. Until now, the inability of billing and other back-office systems to keep pace with the vision of the marketing departments has blocked such plans – a hurdle AT&T claims to have overcome.

Also, most carriers in the fragmented US telecoms industry offer only a small number of services.

Even with a powerful packaged service at its disposal, AT&T has still to prove that Americans want to buy their services this way, says John Donoghue, head of consumer marketing at MCI WorldCom.

"It's nice, but consumers aren't willing to pay more for it," he says.

NEWS DIGEST

OIL AND GAS

Mobil reverses into the red after $651m charge

A 40 per cent fall in global oil prices over the year triggered charges totalling $651m in the 1998 fourth quarter, Mobil, the US oil company to be acquired by Exxon, said yesterday. That resulted in a net loss of $152m, or 21 cents a share, against net income of $704m, or 86 cents, last year.

Mobil took the one-off charge to cover restructuring and to write down the value of its oil and gas properties and inventories. In this, the second largest US oil company joined its peers, which are suffering the worst industry conditions in 12 years. The Exxon acquisition – creating the world's largest oil group – is expected to produce savings of at least $2.8bn and give the combined group a strong financial position to weather the market downturn.

While sharply lower oil and gas prices pulled down operating results at Mobil's exploration and production business, the company posted stronger quarterly results at its marketing and refining operations, where higher margins in Europe and benefits from an alliance with British Petroleum helped offset lower US profits. Mobil reported a 38 per cent decline in operating earnings to $499m, or 62 cents a share, excluding special items. Analysts had been expecting earnings per share of 50 cents, on an operating basis, according to the First Call research group. Revenues declined 20 per cent to $13.22bn in the quarter. Hillary Durgin

TOBACCO

Philip Morris tumbles 79%

Philip Morris, the world's largest tobacco company, said fourth-quarter net income tumbled 79 per cent to $274m after $2.4bn in charges related to tobacco litigation settlements. Setting aside charges this year and last, however, underlying income rose 9 per cent to $1.8bn, or 72 cents a share, matching Wall Street expectations. The rise was led by a 15 per cent jump in profits from domestic tobacco operations, where last November's 45 per cent price increase more than offset a 6.2 per cent drop in volume. Overall revenue for the quarter rose 7 per cent to $18.4bn with US tobacco revenues rising 10 per cent to $10.2bn.

Philip Morris, whose brands include Marlboro cigarettes, Kraft Foods and Miller beer, said fourth-quarter international tobacco profits rose 5.3 per cent to $985m. Higher prices coupled with strong volume gains in western Europe and Japan offset a 3.2 per cent drop in overall international cigarette volumes, mainly because of economic turbulence in eastern Europe and Asia. Reuters, New York

DUPONT

Forecast beaten despite fall

DuPont, the US chemicals group, reported an 8 per cent drop in 1998 fourth-quarter profits because of a strong dollar and competitive pricing, but results still beat Wall Street estimates. Operating income was $682m, or 60 cents a share, before discontinued operations and non-recurring items, versus $749m, or 65 cents, a year earlier. Charles Holliday, chairman and chief executive, said negative global economic conditions would probably mean several more quarters of low volume growth and continued low prices, but lower raw material costs and more favourable currency comparisons, combined with a focus on productivity, should help DuPont weather the downward cycle.

Chemicals sales fell from $1.08bn a year earlier, to $1.02bn, while fibre sales slid 38 per cent to $1.17bn and polymer sales were flat at $1.7bn. The life sciences division posted sales of $890m, up markedly from $461m a year earlier, because DuPont bought out Merck's 50 per cent interest in a pharmaceuticals joint venture. Polymers sales inched up from $1.72bn to $1.73bn. In October the company spun off a majority of its petroleum unit, Conoco, in an initial public offering that generated $4.2bn. Reuters New York

GE CAPITAL

European activities merged

GE Capital, the financial services subsidiary of US group General Electric, has brought together its European consumer insurance and investment activities into a new company called GE Insurance Holdings. It will be London-based and includes GE businesses operating in 14 countries. Clive Cowdrey, GEIH chief executive, said it would pursue core growth and "selective acquisitions", focusing on creditor protection, long-term care and savings and investments. The new company will not include GE Capital's London market and European reinsurance operation, ERC Frankona Re. As part of the shake-up, GEIH sold its UK warranty services business for an undisclosed sum to London General Holdings, wholly-owned by Chicago-based Aon. Andrew Bolger, Insurance Correspondent

Sales growth drives internet stocks

By Roger Taylor in San Francisco

Strong sales growth by eBay and Amazon.com helped drive a rally in US internet stocks early yesterday.

eBay, the online auction business, jumped 40 per cent to $305 while Amazon.com, the internet book retailer, rose 16 per cent to $131 as investors and analysts digested strong results from the companies, both of which are leaders in their respective fields.

eBay, which allows individuals to auction goods through its web site, said the value of goods sold through the service in the last three months of last year was $307m – up 57 per cent.

Online auctions are seen as an important opportunity for internet companies, with Jupiter Communications, the industry research group, predicting that $3.2bn worth of goods will be sold through eBay by 2002. Envisaged as a means for individuals to sell second-hand goods – much like classified advertisements in newspapers – eBay has developed into an "online trading community", where amateur and professional dealers trade collectables ranging from baseball cards to antiques.

Worries about the potential for fraud – and an investigation by the New York City Department of Consumer Affairs into complaints against people dealing through the system – have done little to slow eBay's rise.

Unlike many other internet businesses, eBay has been able to turn this opportunity into profit. It has low overheads and charges a commission on each transaction, allowing it to achieve a gross margin of 86 per cent and net income of $19.5m from revenues of $47.4m in the last quarter of 1998.

Meanwhile, Amazon.com's sales growth and lower than expected losses helped bolster the company's shares, following statements this month that margins were being hit by aggressive pricing. The shares have swung wildly from over $180 to below $110 in recent weeks.

Among other internet stocks, Excite, the portal that agreed a $6.7bn takeover by At Home, the internet service provider, rose 10 per cent to $112.

America Online, the leading internet company, rose 5 per cent to 162\frac{11}{16}$, buoyed by hopes of strong results due out after the market closed.

Analysts were expecting AOL to post second-quarter earnings of 14 cents a share, compared with 5 cents a share (adjusted for stock splits) in the same period a year ago.

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Old Mutual wins go-ahead for UK move

By Victor Mallet in Pretoria

Old Mutual, South Africa's largest life assurance and financial services group, has won permission to move its domicile and primary listing to London after it demutualises this year.

The finance ministry ruled out further primary listings offshore, which will disappoint other businesses which have applied to move their domiciles to London.

Old Mutual will have an estimated market capitalisation of R33bn-R41bn ($5.5bn-$6.8bn) and will qualify for the FTSE-100 index, according to calculations by Merrill Lynch in December.

Old Mutual plc is expected to become the UK's fifth biggest quoted life assurer. Its secondary listing in Johannesburg will make it South Africa's third largest company.

Billiton, Anglo American and South African Breweries have already been given permission to move their domiciles to London. But the South African government was reluctant to let Old Mutual do the same.

Winning the approval of Trevor Manuel, South African finance minister, involved months of negotiations. Old Mutual successfully argued it needed to list in a large and liquid market such as London so that shares sold by its 3.2m policy holders could be easily absorbed. Shares in Sanlam, Old Mutual's smaller rival, have languished below the launch price of R6 since it demutualised and listed in Johannesburg last year.

However, the government insisted the group change its articles of association to guarantee that its South African assets would remain in the country.

Mr Manuel, conscious of perceptions that companies are fleeing South Africa, said the permission granted to Old Mutual was exceptional. He claimed the group would remain a part of the Cape Town scenery "in the same way that Table Mountain and Devil's Peak are part of Cape Town".

"We've been persuaded by the size, by the reality that the Old Mutual is likely to become part of the FTSE 100," he said. "The changes to the articles of association have raised comfort levels all round. As of now, there is no carte blanche [for other companies]."

Mike Levett, Old Mutual chairman, said the London listing would help the group pursue its international ambitions. It did not need new capital for its southern African businesses, but might raise new equity capital for foreign expansion at the time of listing in mid-1999, he said.

Founded in 1845, Old Mutual has R445bn under management. Its policyholders, mostly South African, will each receive a minimum of 200 shares – valued as at December 10 at between R11 and R14 – with additional allocations varying according to the value of policies.

StoraEnso set to shed 2,000 jobs

By Tim Burt in Stockholm

StoraEnso, the paper manufacturer formed by last year's $8.5bn merger of Sweden's Stora and Enso of Finland, yesterday warned that 2,000 jobs – 5 per cent of the workforce – would be cut following the integration of the two companies.

The job cuts, due to be spread over four years, have been recommended in a detailed internal review concluding that cost-savings arising from the deal could be 40 per cent higher than previously expected.

Senior managers at StoraEnso, due to become the world's largest volume producer of paper and board, said the two-month study pointed to annual savings of €300m from 2002.

Björn Hägglund, deputy chief executive, also announced that merger-related provisions and write-downs would be more than double earlier forecasts – at €455m – to cover redundancy costs and adjustments in asset values.

Mr Hägglund justified the sharp increase in likely synergies and provisions by claiming that the two companies had not been able to exchange full financial information until the merger was approved by the European Commission last November.

When Stora and Enso first announced the deal in June last year, they predicted 500 job losses, mainly by combining administrative and marketing functions.

Yesterday, Mr Hägglund said the new group had identified a further 1,500 surplus jobs at the production level.

"None of us really knew the integration potential until we got inside each other's skin," he added. "Now we can see big savings in fine paper, carton-board and pulp."

Restructuring costs and provisions associated with the merger of such operations were put at €210m last summer, but the company yesterday said that figure would be lifted by €245m.

The total provision will be taken against the company's 1998 figures, due to be published next month. Industry analysts are expecting consolidated operating profits of about €1.2bn for last year, compared with a pro-forma figure of €900m for 1997.

Initial savings from the merger are expected to total €50m this year, rising to €170m in 2000 and about €240m in 2001.

In the first year, however, those savings will be offset by €110m of write-downs on machinery and equipment and €90m of goodwill write-offs relating to under-performing plants.

In Helsinki, StoraEnso shares rose 40 cents to €7.20 as analysts welcomed the announcement - lifting the Finnish forestry index by more than 8 per cent.

Concerns arise over oil merger

By Emma Tucker and Neil Buckley in Brussels, and David Owen in Paris

Aspects of the planned oil merger of France's Total and Belgium's PetroFina could raise competition concerns, European Commission officials investigating the deal believe.

The concerns emerged as Total and PetroFina yesterday revealed final annual results before the merger.

European Union legal experts had expected the merger, which will create Europe's third-largest oil group, to win clearance from the Commission after a one-month preliminary investigation, due to expire next Monday.

However officials have hinted that lawyers dealing with the case may have been over-optimistic. The Commission can either clear the merger or take its investigation into a more detailed, four-month phase.

Alternatively, if the Commission judges that more information is required it could declare the notification of the merger incomplete, obliging the companies to re-notify the deal to Brussels' antitrust division.

Fuel storage is one area understood to be under scrutiny by the Commission.

Total reported a comparatively modest 9 per cent downturn to FFr6.9bn (€1.05bn, $1.21bn) in net income excluding non-recurring items on sales down 16.8 per cent at FFr159bn.

PetroFina's underlying net income, excluding one-offs, increased slightly from BFr22.9bn to BFr23.1bn (€573m, $662m), though reported profit dropped from BFr23.1bn to BFr19bn – broadly in line with forecasts – after a BFr8.3bn inventory write-down offset by one-off gains.

Total's earnings per share before non-recurring items slipped 9.4 per cent to FFr28.1. PetroFina's earnings fell 14 per cent to BFr811 a share.

Eyes on Alcatel as critics seek more focus

Diversity in the telecoms equipment group is causing concern, writes **David Owen**

One of the most closely scrutinised sets of numbers of the French results season is released today when Alcatel, the telecommunications equipment group, publishes estimated 1998 sales and profit figures.

Little more than four months ago a profit warning delivered with the company's interim results triggered a stampede to sell Alcatel shares that wiped FFr70bn (€10.7bn, $12.3bn) from its market capitalisation in a day.

A similar reaction to today's figures might well prove terminal for Serge Tchuruk, chairman, whose once-glowing reputation was battered by that debacle.

It seems unlikely, however, that Alcatel's normally streetwise senior management would slip up so badly again. So it can probably be assumed that analysts' expectations of full-year telecoms revenue growth of about 10 per cent and an operating margin of about 4 per cent will be met.

But this would almost certainly not be enough to assuage some observers' longer-term strategic concerns. Some continue to worry that the group's diverse bag of defence electronics, engineering and nuclear power interests risks diverting management attention away from the fast-growing but fast-moving telecoms sector, where it is most needed.

The company last year announced a reorganisation of its core telecoms division in a move described by Mr Tchuruk as "an important step towards better customer service and meeting our shareholder expectations".

But the Alcatel chairman's apparent "string-pulling" role in recent negotiations between Thomson-CSF, the French defence electronics group in which it holds a 16 per cent stake, and the UK's General Electric Company over GEC's auction of its Marconi defence unit, will have done little to change the view that European defence restructuring remains a serious and unwelcome distraction.

However, not all Alcatel observers harbour such concerns. "The big change from conglomerate to telecoms has happened," says Angela Dean, technology analyst with Morgan Stanley. She says the group's ownership of non-telecoms assets such as 24 per cent of Alstom, the engineering group, and 44 per cent of Framatome, the nuclear power group, "are all stakes now. It is not as if there is management involvement."

It could be argued, however, that these non-telecoms assets may also be a factor in the low rating of Alcatel's shares compared with other companies, which are perhaps more focused on telecoms.

This is another concern for some analysts, who argue that it is difficult for Alcatel to make more acquisitions using shares at a time when all-paper transactions are helping to drive rapid consolidation of the industry. Alcatel bought DSC Communications, the US telecoms equipment company, in a stock-for-stock transaction completed in early September, just before the fateful profits warning.

"One of the key elements in being able to reach investor expectations is that you are rewarded with a high stock price that allows you to make acquisitions using stock," says Douglas Smith, analyst with Salomon Smith Barney. "That has clearly been the strategy of Lucent and Cisco. They have consolidated large chunks of the industry... Alcatel is limited to making acquisitions for cash."

This situation was highlighted earlier this month when Lucent confirmed details of a stock deal to acquire Ascend Communications, a data networking company with which Alcatel had announced an alliance last September.

Senior Alcatel executives acknowledge that more acquisitions are necessary. Krish Prabhu, president of Alcatel USA, said recently that he thought the company would continue to look at technology-based acquisitions "as a means to rapidly catch up in areas that we are weak in". "One of our strengths is going to be that we can be a one-stop shop for our customers," Mr Prabhu said. "In order to be able to provide that one-stop solution, we may have to... make acquisitions so that we can complement or fill those gaps that we have."

It is probably just as well that the group's balance-sheet is strong, following a FFr13.7bn capital gain that left it with negligible debt.

Some analysts emphasise there is no time to lose, and argue that the group should sell more non-core assets to maximise its room for manoeuvre.

BCP to redenominate its capital in euros

By Peter Wise in Lisbon

Banco Comercial Português, Portugal's second largest financial group, is to redenominate its capital in euros and issue five new shares with a nominal value of €1 for each existing share with a value of Es1,000.

Analysts said yesterday the split would bring greater liquidity to BCP stock.

Jorge Jardim Gonçalves, BCP chairman, announcing a 50 per cent increase in net income last year, said the group would pursue opportunities for expansion domestically and overseas, including those stemming from the current consolidation of Portuguese financial groups.

BCP is expected to be a leading protagonist in moves to create bigger Portuguese financial groups better able to compete internationally. The merger of Spain's Banco Santander and BCH has renewed speculation over possible Iberian link-ups.

BCP holds a 9 per cent stake in BCH, which owns 14 per cent of the Portuguese bank.

A further dimension was added to merger scenarios yesterday when a Portuguese government official raised the possibility of state-owned Caixa Geral de Depósitos, Portugal's biggest financial group, becoming involved in the consolidation process.

BCP's net consolidated profit rose to Es54.2bn (€270m, $312.5m) last year, up from Es36.1bn in 1997.

Earnings per share rose 18.6 per cent, reflecting the dilution caused by an increase in share capital from Es156bn to Es197bn.

The board will propose a 22.4 per cent increase in dividend per share to Es116.3.

Income from loans and deposits rose 10.3 per cent to Es159.1bn, despite a slight decrease in the net interest margin, the average differential between lending and borrowing rates, to 3.1 per cent from 3.2 per cent in 1997.

NEWS DIGEST

STEEL INDUSTRY

Usinor sees FFr1bn savings in shake-up

French group Usinor, Europe's largest steelmaker, said yesterday it could save up to FFr1bn (€152m, $176m) a year from a restructuring plan that slashes jobs and puts up for sale a number of businesses.

The three-year plan, approved by the supervisory board on Tuesday and due to start on July 1, will see "significant" job cuts, mostly among white collar staff, finance director Robert Hudry said. Savings could be between FFr500m-1bn. Reuters, Paris

BANKING

Krauer to head UBS until 2002

Swiss banking giant UBS said yesterday that Alex Krauer, its interim chairman, would keep the job until 2002, a move seen as stabilising the bank after it was rocked last year by hefty hedge fund losses.

Mr Krauer, 67, is also chairman of Novartis, the Swiss pharmaceuticals group, but is due to retire from that post in April.

His appointment fits well with the bank's shift to a more conservative stance. Evidence of this was seen in its announcement this week that it would reduce exposure to high-risk emerging markets and focus on safer activities like wealth management. Reuters, Zurich

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COMPANIES & FINANCE: UK

TRW set to bid $6.8bn for LucasVarity

By Andrew Edgecliffe-Johnson

TRW, the US-based chassis and steering systems maker, is expected to announce a £4.1bn ($6.8bn) agreed bid for LucasVarity today. The all-cash bid is likely to value the UK-listed automotive and aerospace components group at about 290p per share.

The planned offer would increase the pressure on Federal-Mogul, the US friction and braking products group whose 280p conditional proposal, worth £3.9bn, was rebuffed by LucasVarity on Monday.

Federal-Mogul has been one of the most aggressive protagonists in the accelerating consolidation of the automotive components industry, but analysts said it would struggle to beat a 290p offer from TRW.

Federal-Mogul's original proposal was half cash and half shares, but large investors in LucasVarity have made it clear that they would value an all-cash offer more highly than a mixture of cash and paper.

TRW, based in Cleveland, is seen to have greater opportunities for reaping cost savings from a takeover. Federal-Mogul is believed to be waiting to see the details of the TRW offer before revising its proposal.

Despite speculation about interest, too, from KKR, the US leveraged buy-out specialist, it is thought that LucasVarity would be too large and too cyclical a business for it and that TRW is the only party with which LucasVarity is in talks.

LucasVarity's shares slipped back 2½p yesterday to 283½p, having risen from 214½p since the start of the week on news of the approach from Federal-Mogul and the later "advanced discussions" with an unnamed third party known to be TRW.

TRW's share price performance has been as pedestrian as that of LucasVarity since the latter was formed in 1996 by the merger of Lucas Industries and Varity Corporation. Victor Rice, chief executive of LucasVarity, has pointed to the far stronger performance of Federal-Mogul's shares as one reason for his failed attempt to move his company to the US last year.

TRW and LucasVarity would, at current prices, have a combined market value of about $14bn. The takeover would achieve LucasVarity's ambition of developing integrated chassis control systems.

TRW is being advised by JP Morgan, while Merrill Lynch is working for Federal-Mogul. Lazard Brothers is advising LucasVarity.

BANKS SECURITISATION MOVE COULD TRIGGER PRICE WAR

Northern Rock considers bonds

By George Graham and Christopher Brown-Humes

Northern Rock, the building society which converted to a bank, is considering securitising some new mortgages in a move that could trigger a price war in the UK home loans market.

The bank, said it could write more loans and fund them more cheaply if it packaged the debt sold it to investors as mortgage-backed bonds.

"We can originate more loans than we can actually make ourselves. If it's off-balance sheet and we can make a few bob, then that improves our returns," said Leo Finn, chief executive of the bank, which yesterday reported an 8 per cent increase in 1998 pre-tax profits to £202.6m ($334.3m).

Securitisation has never really taken off in the UK, partly because big building societies and banks have made such big margins on mortgages that they had little incentive to pass them on to other investors. Newcomers that tried to break into the UK market in the 1980s, such as National Home Loans, came to grief during the recession. But if market conditions are right, mortgage-backed securities could cut margins in the home loans industry, as they have over the last three years in Australia.

John-Paul Crutchley, banking analyst at Credit Lyonnais Securities said: "We are at the cusp of a fundamental change in the way that retail banking business is conducted. Northern Rock has sounded the starting gun."

Mr Finn said it would "change the face of the whole of UK lending" if the market moved over to securitising all home loans, but this was unlikely to happen. Northern Rock had no intention of securitising the whole of its mortgage book.

However, new competitors such as Egg, the direct banking arm of Prudential Corporation, and Standard Life Bank have bid up interest rates on retail savings so high that securitisation was now a more attractive way of financing its loans.

Mr Finn said: "Securitisation is a cheaper route for us than funding in the retail market."

A typical mortgage securitisation involves the creation of a special purpose company that borrows in the capital markets by selling floating rate notes. The proceeds pay for the rights to the interest and principal payments on a pool of mortgages.

The special purpose company could cover its cost of capital and funding on a margin of about 0.85 per cent. In contrast, the bank, which has to set aside more capital to satisfy regulators, would need at least 1.42 per cent. UK mortgage margins have been averaging more than 2 per cent.

Mortgage lenders have already suffered pressure on margins in the last two years. Halifax, the UK's biggest lender, has had to cut its interest rates to halt the erosion of its market share.

Northern Rock's gross mortgage lending rose 27 per cent to £3.7bn last year. Flat net lending of £1.8bn gave the bank a 7 per cent market share, against its 3 per cent historical share. This stopped margins falling further and met targets.

The bank will next month launch a product. Together, that allows customers to borrow more than the value of their homes by combining a mortgage with an unsecured loan.

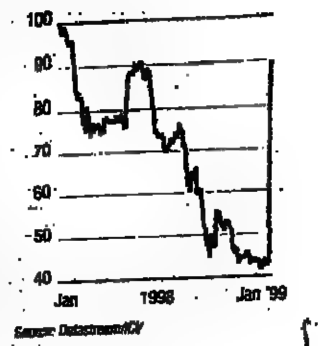
Northern Rock's shares fell 5 per cent, or 30½p, to 497½p on fears that it was heading for a period of slower growth.

Lex, Page 14

Leo Finn (foreground) with Bob Bennett, finance director(left), and Adam Applegarth, executive director. Colin Beere

COMMENT

Bid premiums



The gap is growing ever wider between the values placed on smaller companies by the market and trade buyers. Take the offer for Adwest, an out-of-fashion vehicle components maker. The US bidder offered 150p a share, more than twice the pre-bid price of 73½p. Other deals show similar trends: Inn Business, which has been approached by a rival pub operator, expects to fetch a 70 per cent premium. The gulf widened last year when the market savagely marked down smaller company shares. As they did so, average bid premiums rose – from 38 per cent in 1997 to 47 per cent in the first three quarters of 1998.

One conclusion is that institutional investors are rightly putting pressure on the glut of smaller quoted companies either to merge or go private. Falling interest rates helped the public-to-private buy-out market to motor last year. Now rock bottom prices are tickling up bids and mergers, mainly because managers no longer see the point in soldiering on with undervalued equity. The method to the market's apparent madness is to encourage companies to get bigger or get out; and to discourage all but fast-growing smaller companies from floating.

Merging accountants

BDO Stoy Hayward, which is about to "merge" with the smaller Moores Rowland, protests too much that it is operating in a different market from the Big Five accountancy firms. Surely the enlarged group will be happy to pick up those, probably smaller, clients that feel neglected by the behemoths. Part of the rationale for the deal is to spread investment in central systems over more clients. Whisper it softly, but savings will also be sought as the two come together. Such deals, which also help develop an international network, are sure to continue. And the likes of Grant Thornton will no doubt keep abreast of BDO in the consolidation stakes. Meanwhile, clients should welcome the fact that firms continue to thrive without trying to sell expensive consultancy services on the back of the audit. But medium-sized firms can only capitalise on their more traditional approach but keeping a rigorous watch on standards. This is why striking the right balance between integration, or heavier direction from the centre, and federation is crucial to the success of these deals.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
AromaScan	6 mths to Oct 31	0.478	(0.491)	1.09L♥	(1.07L)	3.08L†	(3.87L)	-	-	-	-	-
Games Workshop	6 mths to Nov 29	35.5	(31.7)	5.21	(4.82)	10.9	(10.1)	3.56	Apr 30	3.3	-	9
Kingfisher Leisureф	6 mths to Nov 1	6.51	(4.63)	0.556	(0.362)	4.3†	(3.4)	1	Mar 5	0.87	-	2
Northern Rock	Yr to Dec 31 ‡	-	(-)	202.6	(188.3)	30.8	(27.9)	8.1	May 28	7	12	7
Powerscreen Intl	6 mths to Sept 30★	147.6	(169.5)	9.74♠	(32.2L)	6.53†	(36.73L)	nil	-	3.1	-	3.1
Shaw (Arthur)	6 mths to Sept 27	4.77	(6.42)	0.162L	(0.861L♠)	0.46L	(2.43L)	nil	-	nil	-	nil

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Gartmore SNT	3 mths to Dec 31	22.7	(13‡)	0.999	(-)	0.82	(-)	0.73	Feb 26	-	-	-
GT Japan	6 mths to Dec 31	171.79	(167.6‡‡)	0.467L	(0.801L)	0.75L	(0.96L)	nil	-	nil	-	nil
Schroder Emerging	6 mths to Nov 30	59.35	(78.13)	0.043L	(0.043L)	0.05L	(0.05L)	-	-	-	-	-

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. ‡Pro forma. ★Comparatives restated. фAim stock. ‡At September 30. ‡‡At June 30.

Mid-sized accounting merger may spark shake-up

By Jim Kelly

BDO Stoy Hayward and Moores Rowland, two middle-tier accountancy firms, are to merge, creating the biggest partnership outside the Big Five. The move could prompt rapid consolidation within the overcrowded segment.

BDO, with revenues of £122m ($201m) in 1998, will absorb 10 of the 14 offices of Moores Rowland, which had revenues last year of £28m.

The deal will put the enlarged BDO Stoy Hayward just ahead of Grant Thornton, which had revenues of £133m.

BDO has 232 partners and 2,000 staff in 36 UK centres while Moores Rowland's 10 offices will bring 62 partners and 450 staff. Four other offices in Manchester and Scotland are not joining the merger.

The deal could set in motion consolidation to rival that in the Big Five market. "They were looking for scale in their market and we are looking for scale in ours," said Adrian Martin, managing partner of BDO.

Firms in the middle-tier, which contains up to 30 partnerships and federations, have been in danger of falling behind the growth rates of the Big Five, unless they can exploit niche markets or are able to invest in IT systems and marketing.

David McDonnell, senior partner of Grant Thornton, said: "We will see the emergence of a small number of players with national and international capability. We are reviewing our options in the context of keeping the lead in the sector."

Clive Weekes, managing partner of Moores Rowland, which pulled out of merger talks with Kidsons Impey last year, said: "This might be the deal which gets the whole sector moving. This merger makes us unassailable in the south-east."

"I think the day of the middle-tier firm is gone, unless they can structure themselves nationally," said the senior partner of one.

Mr Martin said BDO was focused on providing traditional accounting and auditing services and business advice within the context of a long-term relationship with clients – not on a transaction basis.

It is understood the deal announced yesterday involved no payments for goodwill.

Consolidation of offices will leave several outstanding leases and the liabilities will be taken up by the merged firm.

Simon & Schuster chief in frame for top job at Reed

By John Gapper, Media Editor

Jonathan Newcomb, chairman and chief executive of the book publishing group Simon & Schuster, has emerged as a leading candidate to become chief executive of Reed Elsevier, the Anglo-Dutch publishing group.

Mr Newcomb, who lost half his operations when Pearson, the publisher of the Financial Times, bought the educational and specialist publishing arms of Simon & Schuster last year, is on a shortlist of candidates for the post.

He was identified by Spencer Stuart, the headhunting firm, after Reed Elsevier launched its search last year to find a sole chief executive rather than sharing power between its Dutch and UK management.

Analysts believe Andrew Land, who will shortly step down as chairman of Hagemeyer, the Dutch trading company, is another candidate for the job. However, Reed Elsevier has indicated that it could well opt for a US executive.

Reed Elsevier is not thought to have made a choice yet, but people close to the selection process said Mr Newcomb had been an obvious possibility.

"He would be the first name that comes to mind in the US publishing world," said one.

Shares in Reed International and Elsevier, the two holding companies, rose sharply on speculation that they were close to announcing the choice. Reed Elsevier has said it wants to make an announcement in the first quarter.

The search, conducted by a committee of six Reed Elsevier non-executives chaired by David Webster, started last August, when it announced that Nigel Stapleton and Herman Bruggink, co-chairmen, both intended to step aside.

UK network for Colonial

By Christopher Brown-Humes

Colonial of Australia is to become the first financial services provider to launch a franchise network across the UK. It aims to have about 100 franchises operating next year – many from high street sites – with most of its direct sales staff and appointed representatives converting to the new arrangement.

Jackie Bamford, head of legal services at Colonial UK, said: "We believe this will change the way financial services are sold in the UK."

The group aims to build on the success of the franchise concept it pioneered in Australia in 1994. Five UK pilots projects have since shown productivity can be increased by up to 20 per cent.

Colonial believes franchisees are better motivated because they gain equity stakes in their own businesses. The group said it would benefit from lower costs, increased customer satisfaction and higher profits.

The franchisees will pay for premises, training and local marketing costs, but will receive higher commission rates than previously.

The Australian group said it was still keen to make acquisitions in the UK.

LEGAL NOTICES

MR A P HADDOCK

Late of 5 Picton Place, London, W1M 5DD

TAKE NOTICE that a proceedings commenced against you in the High Court of Justice, Queen's Bench Division, Peterborough District Registry, matter number 1998-W-No. 00311 by Warren Lumis and Company Limited whose registered office is 2 Redwell Street, Norwich, Norfolk, NR2 4TN, the Plaintiff has issued the following Summons:-

LET all parties concerned attend the District Judge in Chambers at the Peterborough District Registry, Crown Buildings, Rivergate, Peterborough on 8th day of February 1999 at 12.00 o'clock noon on the hearing of an application on the part of the Plaintiff for an Order that:-

1 That the monies currently held on deposit by Messrs Greenwoods, Solicitors for the Plaintiff, in the sum of £32 500 and representing the net proceeds of sale of the shares in Middlesex Holdings Plc, the subject of the Charging Order Absolute made in these proceedings of 24 September 1998 and sold in accordance with the Order of District Judge Wharton made 24 September 1998, together with accrued interest be paid to the Plaintiff unless, at the hearing of this application the Defendant shows just cause otherwise.

2 [illegible] by the Plaintiff in any event.

3 Time estimate of 10 minutes.

Dated this 16th day of December 1998

AND FURTHER TAKE NOTICE that it has been ordered that service of the said Summons in the said action on you be effected by this advertisement.

GREENWOODS Solicitors
30 Priestgate, Peterborough, PE1 1JE
Ref: TA/JCS/NOR 6/1432
Dated this 28th day of January 1999

CONTRACTS & TENDERS

INVITATION FOR BIDS

Loan No. IBRD. 3764 PAK
IFB No.786/12

1. The Government of the Islamic Republic of Pakistan has received a loan of 230 Million US$ from the International Bank for Reconstruction and Development in various currencies to improve the reliability of Power Sector. A part of this loan (25 Million US$) will be used for the rehabilitation of Distribution System and it is intended that part of the proceeds of the loan will be applied to eligible payments under the Contract for the supply of Distribution Transformers.

2. The Water and Power Development Authority (WAPDA) now invites sealed bids from eligible Bidders from member countries of the World Bank as explained in section IX of Tender Documents, for the supply of Distribution Transformers as per WAPDA Specifications as follows:

50 KVA Transformers	1000 Nos.
100 KVA Transformers	1500 Nos.
200 KVA Transformers	1500 Nos.

3. Interested eligible Bidders may obtain the bidding documents and further information upon written request from the office of the:

Chief Engineer (Rehabilitation & Energy Loss Reduction)/ Project Director WAPDA, 410 Wapda House Lahore Pakistan
Tel: No. (92 42) 92 02153, Fax No. (92 42) 9202153
Telex: 44869 WAPDA PAK

A complete set of the Bidding Documents may be purchased by any interested eligible bidder on the submission of a written application to the above address and upon payment of a non refundable fee of Rs.3,000/ from 28.01.1999 to 09.03.1999 till 0900 hours Pakistan Standard Time.

4. All bids must be accompanied by a Bid Security of not less than 2% of the total Bid Price and must be delivered to the office of Chief Engineer (Rehabilitation & Energy Loss Reduction)/ Project Director, WAPDA on or before 13.03.1999 till 1000 hours, Pakistan Standard Time.

5. Bids will be opened in the presence of the Bidder's representative who choose to attend on the same date at 1100 hours Pakistan Standard Time in Lobby of WAPDA Auditorium WAPDA House, Lahore.

Chief Engineer (Rehabilitation & Energy Loss Reduction)/
Project Director WAPDA, 410 WAPDA House Lahore Pakistan.
Tel: No. (92 42) 9202153, Fax. No. (92 42) 9202153
Telex: 44869 WAPDA PAK

هكذا من الأصل

GROWING BUSINESS SCHRODER VENTURES

Rainmaker with a feel for a deal

The partners chose the man with 'superb' team-building skills, writes Katharine Campbell

When Peter Smitham, outgoing UK managing partner of Schroder Ventures, interviews potential recruits, he invariably sets the same test.

He sketches five prospective investments, and asks the candidate to pick one. Unsettled by being disallowed the first choice – "I'm sorry, that's gone" – the new hopeful is invited to opt for another. Mr Smitham then plays managing director, while the candidate quizes him to decide whether to invest.

Ten years ago, Damon Buffini was in the hotseat. "He got the highest score of anyone I have ever interviewed," says Mr Smitham.

In the past decade, Mr Buffini has proved his feel for a deal was grounded in more than theory, and, at the relatively tender age of 36, has emerged as the next UK managing partner. "It's not easy," acknowledges Mr Smitham, who stays on as chairman of Schroder Ventures Europe. "There are plenty of people with big aspirations. But when it came to the vote, all the partners said give it to Damon."

Many UK private equity houses set up in the early 1980s now face succession issues. At Electra Fleming – which manages Electra Investment Trust, the subject of an approach from 3i, the venture capital company – decisions have arguably been delayed too long. "People who change with a sense of urgency tend to get it wrong," notes Mr Smitham.

A striking contrast in the personalities of recent managing partners highlights the firm's recent evolution. Jon Moulton, who left in 1994 – for Apax and then to his own boutique Alchemy – had cultivated the image of hard-nosed deal-getter.

Meanwhile Mr Smitham, an eloquent spokesman, but softer around the edges, repositioned the firm, raising the industry's first $1bn pan-European fund, and holding forth on his "favourite subject", the restructuring of European industry.

Today it is Mr Buffini's team-building skills that have secured him the top job. Nick Ferguson, chairman of Schroder Ventures, says: "He is a superb organiser of team effort. You can't do deals of the size and complexity we do with one brilliant guy any more".

Other younger partners, notably Charles Sherwood, have enjoyed a higher profile. Mr Buffini, by contrast, is utterly unassuming and not yet a natural spokesman. But within the deal-doing community, he commands huge respect. "He is an excellent rainmaker," says David Law, director of Warburg Dillon Read. "He has tremendous drive and energy, and is a natural leader."

In the past 18 months, Schroder Ventures has completed transactions totalling £1.44bn ($2.37bn), more than in the previous three years combined. Mr Buffini has played a pivotal role in most of the deals.

He marked down Sirona Dental Systems, a DM840m buy-out from Siemens, the German conglomerate. Unusually for Schroders, which often negotiates exclusively with vendors, it participated in a huge auction staged by J.P. Morgan, which resulted in much teeth-sucking from the competition at the price it paid. "People thought we were crazy." Mr Smitham cheerfully admits. "We took a gamble. If you kept the US loss-making business, yes it was incredibly expensive. But we took the view we could close it gracefully." Within six months the US operation had been restructured and sold.

He has also been closely associated with many other banner deals including Leica Microsystems and Courtaulds Packaging.

A management consultant with a law degree and a Harvard MBA, Mr Buffini has a very different background from Mr Smitham, a former industrialist. But he will stick to the strategy of seeking improvement in operating performance rather than effecting financial engineering.

He faces a tricky economic environment as competition for deals increases with the arrival of the US buy-out houses. He will also have to handle the internal transition, and the possible departure of partners who missed out. In an unconnected move, the firm is already losing Diana Noble, 36, a partner since 1989.

New pressures will emerge next year. Schroders will return to the fundraising circuit for Europe, according to Mr Smitham, in search of a bigger pot – the current rate of investment suggests a figure of around $3.5bn. But Mr Buffini will be out to prove he was the right – if brave – choice for the job.

Damon Buffini: facing a tricky economic environment

GLOBAL STRUCTURES

Buy-out border crossings

Schroder Ventures is raising a US fund of $250m-$400m (£151m-£241m), *writes Katharine Campbell*. The move underscores how buy-out firms are increasingly attempting to build not just regional but global structures.

American buy-out houses have trained their sights on Europe, while some European firms are eyeing the mature and highly competitive US marketplace.

Nick Ferguson, the chairman of Schroder Ventures, says the move is driven by the international nature of most of today's deals. "To go and challenge domestic players head-on doesn't make a lot of sense to me. But what we do need is a link into our non-life science technology businesses and into the whole buy-out area."

Unlike most European private equity operators, the firm has long experience of the North American market. Indeed, its first fund was a US life sciences vehicle, raised in 1983. Three years later a buy-out business was set up in Montreal.

Andy Gaspar, a 20-year veteran of the private equity industry, has joined to run the New York operation. Mr Gaspar had been a technology partner at Warburg Pincus, before moving to his own firm, Lander Gaspar.

GROWING BUSINESS MACHINE TOOLS TURNAROUND

Back from the dead with Swiss precision

Peter Marsh explains the remarkable change in fortunes at machinery maker Tornos-Bechler

"Renouveau Tornos" sounds like a dish on the menu of a swish new French restaurant. In fact, it was the tag applied to an ambitious programme to revitalise a 109-year-old Swiss machinery company that lost its way in the 1990s and was facing extinction.

Tornos-Bechler is one of the world's biggest makers of high-precision lathes for a range of industries, including watch making, electronics and cars.

Its renaissance since 1995 – a simple case of the diligent application of modern business principles to a long-established company – impressed Doughty Hanson, the secretive London-based venture capitalist, which this month bought it for an undisclosed sum. A float is planned, probably in Zurich, during the next few years.

The architect of the changes is Anton Menth, a Swiss manager from outside the machine tool industry who was brought in as chief executive in 1995 by a consortium of Swiss banks. At that time, the banks were owed SFr70m (£30m) – and there seemed little chance of them seeing much of their money back.

The head of a rival German machine tool company thinks Mr Menth did a good job. "It [Tornos] had a great tradition. But when he came in, I felt unsure that it would survive."

Tornos's strengths included a workforce skilled in precision engineering, whose machines had been used for decades to fashion tiny parts made by Switzerland's watch industry, but whose previous management had failed to introduce new ideas, particularly in electronic control.

The slide was not stopped when, in the late 1980s, the company passed into the hands of a private German investment group, controlled by the Rosenberger brothers, who had a range of other machinery interests. The slump in demand for machine tools early in the 1990s, linked to the world recession, compounded Tornos's difficulties.

The renewal plan turned the company upside down

In 1994, Tornos made a loss of about SFr13m on sales of SFr135m – turnover having dropped to roughly half compared with the late 1980s. In March 1995, the banks, including Credit Suisse and UBS, asked Mr Menth to take over from a previous top job at Oerlikon-Bührle, the Swiss defence group. Mr Menth put in place his "renewal" plan – and turned the company upside down.

By the end of 1997 it was producing an annual gross profit of SFr7m on sales of SFr213m, and last year profits were estimated to be more than SFr9m on sales of SFr283m.

The programme has been based on changing manufacturing processes to reduce stocks, and concentrating production on one site at Tornos's headquarters in Moutier, rather than the three plants it had previously. In the early 1990s it took nine months to build a machine, now it is just six weeks. This transformation has released more than SFr30m in capital – SFr20m of which has been invested in new plant and research and development, with the rest repaid to the banks.

The extra R&D cash has led to a series of new machines. Last year two-thirds of Tornos's revenues came from products created in the previous three years.

The new machines use software and control systems to do what would have been achieved in the past by mechanical engineering parts such as cams.

Tornos's managers, the Rosenbergers and the bank creditors started talking to Doughty last year about a recapitalisation of the company based on the UK company injecting equity and paying off the banks.

Eventually Doughty took a stake of about 90 per cent, the rest being held by managers including Mr Menth.

When Doughty will consider floating the company depends on whether Tornos – which is in a notoriously cyclical industry and has still to prove it can ride out the sector's next downturn – can keep up the recent momentum.

Cutting edge: Anton Menth with one of Tornos-Bechler's high-precision lathes

TECHNOLOGY WORTH WATCHING

Electrolux steamed up over ovens

Seven thousand years after the Chinese first used steam to cook food, Electrolux, the Swedish domestic appliances company, wants to seduce the public with the advantages of cooking by this apparently antiquated method, *writes Sathnam Sanghera*.

In September, Electrolux will launch its first steam oven for the European mass market.

Professional chefs have been extolling the benefits of steam ovens for decades. In particular, steam used in the first seven to eight minutes of cooking lets pastries rise higher, producing bigger muffins and fluffier croissants.

In the past, the high cost of steam ovens has prevented the technology spreading into the domestic kitchen. By creating models that will cost only about ($150) more than conventional ovens, Electrolux believes it can overcome this problem.

The increasing demand for healthier food could give the new ovens a considerable market. The high temperatures involved in conventional cooking often result in food losing many of its inherent vitamins and minerals. But cooking with steam allows many of these nutrients to be retained.

Broccoli, for example, keeps 67 per cent more vitamin C if it is steamed rather than boiled, while cabbage retains an extra 129 per cent vitamin C when steam cooked.

Due to the humidity of the steam oven, the food also retains more of its natural flavours, colour and smell.

Electrolux's initial model, called Creation Soft Cooking, will effectively be one of their conventional hot air ovens with a steam cooking function added on to it. The steam can be used alone or combined with normal methods.

The oven has an integrated container on the front panel into which water is poured. It flows through a tube to a steam generator in the base of the oven cavity. When steam cooking is selected, a valve in the oven closes the normal ventilation system, and the food is cooked by the incoming steam.

There are already plans to expand steam cooking facilities into free-standing cookers by the end of the year.

Mass-market steam: a consumer first

"Using steam to cook food in a home oven is not a new idea, but Electrolux is the first manufacturer to provide ordinary consumers an affordable choice in achieving all the benefits that come from steam cooking," says Ake Sälfbeck, Electrolux brand manager.

IN BRIEF

MIT develops tiny chip implant for drug delivery

Scientists at MIT are developing a tiny chip that can be implanted under the skin and made to deliver precise amounts of chemicals at specific times. Potential applications could include diagnostic tests, the delivery of complex drugs or jewellery that delivers scents according to an individual's changing mood.

The prototype chip has 34 minute reservoirs built in. Each reservoir can store about 25 nanolitres (thousand millionth of a litre) of chemicals that are released by applying a small electrical voltage to the reservoir, which causes its cover – a thin gold cap – to dissolve. The result is "that multiple compounds can be released independently from a single microchip device", according to a paper in today's Nature, the science journal.

The prototype chip has wires connecting the reservoirs' circuitry to an external power source. But the researchers believe it is possible to make a self-contained device with a battery that could be pre-programmed, triggered by remote control or activated by a biosensor on the chip. The device could be as small as 2mm long, making it implantable.

Massachusetts Institute of Technology: US, tel 6172585402; e-mail thomson@mit.edu

Smoking switch

Why do some people find it so hard to give up smoking? The answer may lie in their genes, according to two studies published in the American Psychological Association journal, Health Psychology.

Researchers found that people carrying a particular version of the dopamine transporter gene are less likely to start smoking before the age of 16 and are more likely to be able to stop smoking if they start.

Another group of researchers found that this version of the dopamine transporter gene was associated with personality traits that influence people's ability to start and stop smoking. The researchers from the National Cancer Institute and elsewhere found that people with this version of the gene had lower "novelty seeking traits" than others. Since novelty seeking has been associated with a desire to smoke, the researchers say that "a low level of novelty seeking could be a predictor of smoking cessation".

American Psychological Society: US, tel 2023365707; www.apa.org/journals/hea.html

Super sidecar

A motorcycle sidecar that can carry water, serve as a stretcher for hospital patients or even help pump water is being developed in the UK, *writes David Spark*. The prototype is being tested in a village in Zimbabwe.

The basic unit has a winch on the front, a tow bar, a power generator and space for fuel cans. On this base can be bolted a stretcher, a dispensing unit, a refrigerator or a mobile library. A 200cc motorcycle with the sidecar and a trailer can carry two people. The sidecar, devised by the Borehamwood-based Ranger Company, is being tested by Riders for Health, a charity that runs a motorcycle training and maintenance organisation for Zimbabwe's health minister.

Ranger Company: UK, tel 0181 9533404.

Pain container

The pain associated with cancer that has spread to the bones may be helped by an electrical nerve-stimulation technique that is loosely based on Chinese acupuncture.

Researchers at the University of Texas Southwestern Medical Center at Dallas have developed a technique called percutaneous electrical nerve stimulation, which involves the insertion of acupuncture-like needles into the soft tissue surrounding bone. When used in association with other pain-management techniques, several patients found it reduced pain that had proved unresponsive to drugs such as morphine.

Southwestern Medical Center: US, tel 2146483404; http://irweb.swmed.edu/

Vanessa Houlder

EURO PRICES

EQUITIES

Meltdown fears wane on Asian strength

EUROPEAN OVERVIEW

By Bertrand Benoit

Most European equity markets closed higher after a good overnight showing by Asian bourses assuaged fears that the Latin American crisis could prompt a global currency meltdown.

Despite a record $541m flight from Brazil on Tuesday, the net dollar outflow from the country, standing at $8.1bn this month against $5.2bn in December, was lower than expected.

Meanwhile, a batch of good company results, underpinned by high liquidity and low bond yields, turned last week's correction into an opportunity for bargain-hunters.

Some analysts, however, believed the macro-economic picture in Europe could darken as the impact of the Latin American crisis sinks into the region's real economy and dents European export prospects.

"Europe is a good consumer story but a weak manufacturing one with falling export trends," said the European equity team at J.P. Morgan.

There was little optimism in Germany yesterday when the government said export growth had slowed last year and that the economy should grow by 2 per cent in 1999, against 2.8 per cent in 1998.

Unemployment data in France, due on Friday, are also expected to show a deterioration.

All this is likely to affect earnings although the extent to which markets are pricing in the bad news remains unclear.

"Earnings will not be falling off the cliff," said Peter Sullivan, European equity strategist at Goldman Sachs. "They will be below market consensus but not too far off what investors expect."

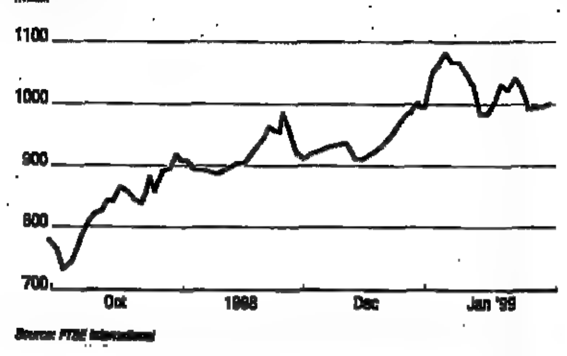
The FTSE Eurotop 300 index gained 3.57 to 1,191.12, while the FTSE Eurotop 100 index rose 5.52 to 2,729.19. The FTSE Ebloc 100 index gained 4.50 to 1,000.93.

British Telecom lost 30 cents to €13.23 after ABN-Amro advised a switch to Vodafone, up 40 cents to €17.02.

Danone rose €18.60 to €328.50 after reporting good profit figures, recovering some of the losses it incurred last week when Nestlé unsettled the sector with a bleak forecast for sales. Nestlé lost €33.50 to €1,597.06.

UK retailers rose on a surge of confidence in the UK economy. Boots gained 40 cents to €12.86.

FTSE Ebloc 100



FTSE Actuaries Share Indices — European series

Produced in conjunction with the Faculty and Institute of Actuaries

Jan 27 National & Regional Markets	Euro Index	Day's %	change points	Yield gross %	xd adj ytd	Total retn (Euro) €
FTSE Eurotop 300	1191.12	+0.30	+3.57	2.29	0.44	1226.93
FTSE Eurotop 100	2729.19	+0.20	+5.52	2.37	1.78	978.94
FTSE Ebloc 100	1000.93	+0.45	+4.50	2.07	0.34	1016.35
FTSE EuroMid	1149.19	+0.89	+10.19	2.94	1.05	1191.84
FTSE EuroMid Ebloc	1192.09	+0.29	+3.49	2.35	1.30	1218.61
FTSE EuroMid Ex UK	1221.02	+0.56	+6.81	2.24	0.89	1244.53
FTSE Eurotop 300 Regions						
Eurobloc	1251.67	+0.50	+6.27	2.02	0.80	1279.06
UK	1106.71	+0.15	+1.65	2.75	0.40	1162.41
Europe Ex-Eurobloc	1141.02	+0.08	+0.95	2.59	0.29	1182.12
Europe Ex-UK	1239.59	+0.38	+4.65	2.07	0.46	1263.26
FTSE Eurotop Industry Sectors						
RESOURCES	792.30	-1.37	-11.01	3.83	0.94	829.46
Mining	758.20	+1.71	+12.76	4.60	0.00	774.21
Oil & Gas	783.89	-1.48	-11.58	3.59	0.94	783.30
BASIC INDUSTRIES	1016.96	+0.94	+9.47	2.85	0.60	1039.20
Chemicals	796.94	+0.68	+5.35	2.82	0.55	811.66
Construction & Bld Matls	867.53	-0.10	-0.87	2.66	0.00	875.03
Forestry & Paper	848.13	+6.44	+51.30	3.55	0.00	886.91
GENERAL INDUSTRIALS	1103.82	[illegible]	+22.24	2.51	0.13	1127.48
Aerospace & Defence	824.51	+3.59	+28.56	1.90	0.00	835.89
Diversified Industrials	994.38	+3.18	[illegible]	2.02	0.00	1017.13
Electronic & Elect Equip	979.40	+1.56	+15.01	1.89	0.00	984.73
Engineering & Machinery	857.81	+0.84	+8.01	4.15	0.45	[illegible]
CYCLICAL CONS GOODS	1291.42	+0.90	+11.67	2.56	0.00	1326.96
Automobiles	982.43	+0.85	+8.23	2.41	0.00	971.38
Household Goods & Texts	1205.69	+1.14	+13.88	3.37	0.00	1246.24
NON-CYC CONS GOODS	1227.47	-0.18	-2.23	1.47	0.05	1261.29
Beverages	885.82	-2.66	-24.23	3.09	0.00	904.96
Food Producers & Processors	913.05	+1.78	+15.99	1.89	0.00	923.78
Health	854.90	-0.23	-1.98	5.67	0.00	837.59
Packaging	732.00	+1.93	+13.86	1.23	0.00	732.91
Personal Care & Hse Prods	1104.30	-0.79	-8.84	0.88	0.00	1113.72
Pharmaceuticals	1134.72	-0.58	-6.62	1.13	0.00	1140.88
Tobacco	1451.49	+0.19	+2.73	2.72	1.42	1480.56
CYCLICAL SERVICES	1258.49	+1.19	+14.76	2.43	0.67	1298.01
Distributors	701.99	-0.37	-2.60	4.20	0.00	709.87
General Retailers	1051.86	+2.81	+25.73	3.00	1.09	1074.69
Leisure Entertmt & Hotels	770.81	+0.46	+3.56	2.84	6.02	786.84
Media & Photography	1161.41	+1.86	+21.05	1.99	0.00	1173.81
Restr, Pubs & Breweries	813.76	+1.92	+15.34	3.41	2.84	840.23
Support Services	1070.10	-0.92	-9.94	1.38	0.00	1081.46
Transport	932.84	-0.97	-9.10	2.67	0.00	950.04
NON-CYCLICAL SERVS	1317.17	+0.23	+2.96	1.52	0.32	1366.05
Food & Drug Retailers	1032.36	+0.73	+7.44	2.00	0.00	1049.12
Telecommunications Servs	1299.16	+0.11	+1.47	1.43	0.39	1318.90
UTILITIES	1469.82	-1.08	-15.99	2.97	3.35	1593.59
Electricity	1148.93	-1.20	-13.96	3.06	3.42	1189.28
Gas Distribution	1199.82	-0.95	-11.52	1.56	1.00	1322.13
Water	933.47	-0.28	-2.63	5.37	0.00	977.60
FINANCIALS	1292.00	+0.17	+2.17	2.53	0.13	1256.50
Banks	845.23	+0.10	+0.87	3.46	0.16	857.39
Insurance	1009.45	+0.02	+0.22	1.39	0.00	1021.63
Life Assurance	1187.35	+0.56	+6.60	1.65	0.00	1202.77
Investment Companies	972.21	-0.20	-1.94	1.83	0.00	985.85
Real Estate	606.45	+1.90	+11.29	3.86	0.00	632.22
Speciality & Other Fin	861.28	+1.66	+14.08	2.61	0.00	875.57
INFORMATION TECH	917.39	+1.79	+16.10	1.13	0.00	919.77
Information Tech Hardware	968.12	+2.26	+21.63	1.38	0.00	968.42
Software & Computer Serv	807.39	+0.47	+3.76	0.47	0.00	808.32

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THREE MONTH EURIBOR FUTURES (LIFFE) €1m 100 - rate

[illegible]

THREE MONTH EURO LIBOR FUTURES (LIFFE) €1m 100 - rate

[illegible]

THREE MONTH EURO LIBOR OPTIONS (LIFFE) €1m 100 - rate

[illegible]

FTSE EUROTOP 100 INDEX FUTURES (LIFFE) €20 per full index point

[illegible]

EURO STYLE FTSE EUROTOP 100 INDEX OPTION (AEX) €10 per index point

[illegible]

OTHER INDICES

[illegible]

FTSE EUROTOP 300

[illegible]

CURRENCIES & MONEY

EURO SPOT FORWARD AGAINST THE EURO

[illegible]

BONDS

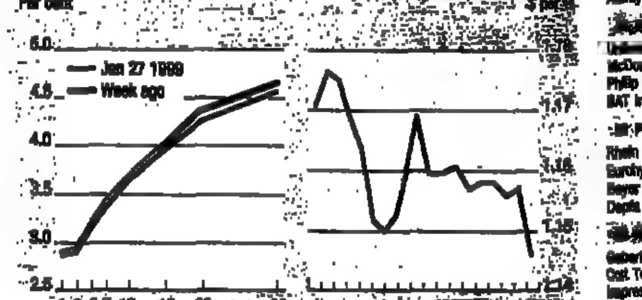
INTEREST RATE SWAPS

[illegible]

EURO-ZONE BONDS

[illegible]

Euro bond yield curves



مكذا من الأصل

British excitement followed by a shrug of indifference

The UK business community's response to the euro has been considerably more muted than europhiles might have hoped for. Kevin Brown and Chris Tighe report on why British business is still reluctant to take the single currency plunge

Britain's business community watched the launch of the euro with as much anxiety as anyone in continental Europe. Even those who oppose UK participation acknowledged that a botched start would have *disastrous* consequences for the whole Union.

But those who thought the use of the single currency would sweep rapidly through the UK economy have been disappointed. In the 28 days since it became *legal* currency in 11 EU states, there has been little movement outside the financial sector.

The absence of a flood of corporate announcements about the euro does not mean that British business has gone off the idea, especially since surveys continue to suggest that a majority of business people back UK membership in principle (though this is vigorously contested by sceptics).

"I think we can expect to see some movement to the euro by British companies, but the fact that it has not happened in the first few weeks is not really significant. It really is too early to say exactly what is happening," says Douglas Godden, head of economic policy at the Confederation of British Industry.

Some companies, such as ICI, British Petroleum, GKN, Rover and the British arm of Siemens, have made clear that they want their suppliers to invoice them in euros. And a handful of companies and organisations have begun to integrate the euro into their UK operations in a more fundamental way.

ICI has moved a major subsidiary (albeit Dutch-based) over to internal accounting in euros, and the Surrey-based European Synthetic Rubber Association will next month become one of the first employers to start paying euro salaries.

At least one takeover of a UK company has been completed in euros: Packard BioScience of the US acquired AEA Technology's instrumentation division earlier this month for €9.8m (£7m).

Richard Fleetwood, who led the corporate finance team at Addleshaw Booth, the UK law firm that advised Packard, said it was cheaper for Packard to fund the acquisition through a euro loan by Harwell Instruments, its English subsidiary, than through dollar or sterling borrowing by the parent company.

However, there have been many fewer euro-related developments than expected. In particular, enthusiasts have been astonished by the lack of interest in doing business in the euro among customers and suppliers in continental Europe.

In the days between Christmas and New Year, Colin Scarsi, managing director of Green Tyre, an environmentally friendly tyre producer, slogged away in his office to produce a euro price list for all his continental markets.

Mr Scarsi, a well known Teesside businessmen, wanted to be quick off the mark with euro trading. He believed it would help him overcome some of the currency fluctuations that are such a headache for exporters.

As the euro went live, he was ready for action, with a euro price list, a euro-friendly computer system and a euro bank account, opened at the Newcastle branch of the Bank of Scotland. Four weeks later, he is still waiting for something to happen. Not one cent has passed into the euro account. "All I've got is probably more bank charges," he says ruefully. Just last week, a German supplier sent him a quote – in D-Marks. "I said: 'Surely it should be in euros.' They said: 'You know the calculation, just convert it.'

"I'm bloody disappointed," said Mr Scarsi, whose company last year exported 40 per cent of its near £2m sales. "We put a lot of effort into it. We've done all this preparation. I'm surprised at how little action there's been. We've been underwhelmed by the change – there's been no change for us whatsoever, it's been quite staggering."

He adds: "We were all happily geared up for it, but there's been no use for the facilities we've invested in, and no great use for a euro price list."

Green Tyre, which claims to be the world's largest producer of puncture-proof tyres for bicycles and wheelchairs, exports its recyclable polyurethane tyres to 28 countries worldwide. In Shanghai, Green Tyre is building a plant, under a joint-venture deal, to produce a million tyres a year for the Chinese market.

Mr Scarsi wonders whether the slow take-off for the euro in the UK may be partly due to the legal requirement that prices must be converted to six decimal places – a rule that leads to unwieldly calculations.

However, other business people suggest there are more fundamental problems. One is that managers who are focused on preparing for the millennium may not have given sufficient attention to systems changes needed to use the euro as anything more than another foreign currency.

Another is the reluctance to switch to the use of the euro for budgeting and internal accounting, let alone for full published accounts, in the middle of a financial year. ICI, for example, is considering producing a euro supplement to its accounts, but only for 1999-2000, the first full year in which it will have been doing business in the new currency.

Some business people think there is also a problem of critical mass: most business sectors will make the transition only after a couple of major players have decided to shift, taking their customers and suppliers with them, they say.

Overlaying all of this is the natural tendency of many managements to want to wait and see how the new currency performs in practice before committing their companies to changes that might be difficult to reverse.

Philippa Foster Back, president of the UK's Association of Corporate Treasurers, says companies are turning to euros in the wholesale market for their treasury operations, in part at the instigation of their bankers.

Most are continuing to use sterling or European legacy currencies for budgeting, management accounting and dealing with suppliers, she says. But that will change over the next couple of years as the single currency becomes more familiar.

"I would be surprised if we see many companies reporting in euros instead of sterling, but I think there will be more beginning to use the single currency for internal accounting and dealing with their foreign subsidiaries."

CASE STUDY HONEYWELL EUROPE

When transparency leads to added value

By Peter Marsh

While it is not difficult to find continental industrialists keen on the euro, William Hjerpe, president of the European operations of Honeywell, the US controls and building products company, ranks among the most enthusiastic.

Mr Hjerpe, an American who has been in charge of Honeywell's $2.2bn (£1.3bn) a year sales in Europe for the past two years, and whose previous job was chief financial officer of the company, reckons the euro has the potential to transform how his organisation sells products and services across the continent. Behind this lies an analysis of how Honeywell and similar companies add value to the components and services they buy from businesses lower down the supply chain.

Mr Hjerpe estimates that the price-transparency effect of the euro – by which comparison of commodity item prices should be made much easier as companies switch into euro pricing over the next few years – should save Honeywell considerable sums in its supply bill.

However, its ability to add value to its purchases through manufacturing, engineering and product design skills, in many cases aimed at selling highly customised products to meet specific needs, should prevent the company suffering from the same transparency effect in its own selling operations. As a result, it should be able to maintain premium prices for its products, keeping margins reasonably high.

Mr Hjerpe believes the impact of the euro on Honeywell's suppliers should, from 2000, lead to savings of some $30m a year, on an annual supply bill in Europe of about $900m. These savings of nearly 3 per cent should come on top of the 5 per cent a year reduction in supply prices that Honeywell is seeking anyway as a result of production efficiencies and new purchasing strategies – through combining the purchasing operations of several Honeywell plants or operating units, for instance. According to Mr Hjerpe's thinking, these savings should pass through almost completely to the company's bottom line, provided it can continue to introduce innovative ideas that competitors find hard to emulate when it comes to tackling customers' problems.

It could turn out, of course, that Honeywell's European chief is indulging in wishful thinking. It could be argued that Honeywell – which is selling into a market for industrial and domestic controls bursting with powerful competitors (including Siebe of the UK, Emerson and General Electric of the US, Germany's Siemens and the Swiss-Swedish ABB) – is no more immune than anyone else to the deflationary trends affecting much of manufacturing. However there is some logic behind Mr Hjerpe's argument that those companies better able to offer specific solutions to customer problems, or having *some special technology* or service skill, will do better from the euro than less agile competitors.

In the case of Honeywell's European division – which also takes in its the company's activities in the Middle East and Africa – Mr Hjerpe says only one third of its revenues come from standard products such as boiler thermostats or lighting controls. The rest comes from areas where Honeywell's ability to line up its own resources to customer needs is highly important. These fields include specially configured products, to help operate particular industrial processes for instance, or service and maintenance contracts.

"In the old days, service functions, including what amounts to consultancy work in advising customers how best to organise or tune specific [industrial] processes, were the tail on our core manufacturing business – *now they are central*," says Mr Hjerpe.

The accent on service-based activities, which in general command higher prices than commodity products, is evident from the split in the job functions of Honeywell's 13,000 European workers, of whom 8,500 are in sales and service and the rest in manufacturing and engineering.

As for other savings that should arise from the euro, Mr Hjerpe, who is based in Brussels, thinks the new currency should cut about $8m a year from the European operation's overhead costs. This would come, for instance, from a lower need for financial hedging when dealing with the 11 currencies that make up the euro-zone – which previously could move against each other, albeit by small margins – and through savings in banks' currency conversion charges.

William Hjerpe: 'We want to be thought of as a company committed to the idea of European integration'

Extra efficiencies should arise from a big change in the structure of Honeywell's activities in Europe, unveiled on January 1, the day the euro was introduced. Under these changes, its sales and services are being organised around three set areas of business. This is opposed to the previous system under which regional Honeywell bosses were responsible for selling a wide *range of goods and services* into one specific part of the continent. Under the new set-up, the three business units – industrial products and services, and separate "product" and "service" divisions for home and building controls – will sell across Europe, regardless of previous regional boundaries.

The change, which will bring Honeywell's European operations more in line with those in the US – Honeywell's most important market – should enable the company to move closer to customers and find out more about their needs, says Mr Hjerpe.

"We want to be thought of [in Europe] less as a US multinational and more as a company based in Europe, which is committed to the idea of European integration that the advent of the euro has made more feasible."

LEGAL NOTICES

No. 006890 of 1998
IN THE HIGH COURT OF JUSTICE CHANCERY DIVISION COMPANIES COURT
IN THE MATTER OF HOMESHARE (UK) III LIMITED
- and -
IN THE MATTER OF THE COMPANIES ACT 1985
LEGAL NOTICE
NOTICE IS HEREBY GIVEN that the Order of the High Court of Justice (Chancery Division) dated 20th January 1999 confirming the reduction of the share premium account by [illegible] of the above named Company was registered by the Registrar of Companies on 25th January 1999.
DATED 28th January 1999
NABARRO NATHANSON
50 Stratton Street
London W1X 6NX
Ref. BGR/ZVG/1768Q

No. 006892 of 1998
IN THE HIGH COURT OF JUSTICE CHANCERY DIVISION COMPANIES COURT
IN THE MATTER OF HOMESHARE (UK) IV LIMITED
- and -
IN THE MATTER OF THE COMPANIES ACT 1985
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NABARRO NATHANSON
50 Stratton Street
London W1X 6NX
Ref. BGR/ZVG/1768Q

No. 006891 of 1998
IN THE HIGH COURT OF JUSTICE CHANCERY DIVISION COMPANIES COURT
IN THE MATTER OF HOMESHARE (UK) II LIMITED
- and -
IN THE MATTER OF THE COMPANIES ACT 1985
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NABARRO NATHANSON
50 Stratton Street
London W1X 6NX
Ref. BGR/ZVG/1768Q

No. 006889 of 1998
IN THE HIGH COURT OF JUSTICE CHANCERY DIVISION COMPANIES COURT
IN THE MATTER OF HOMESHARE (UK) V LIMITED
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Ref. BGR/ZVG/1768Q

Liffe plans euro-zone contract

By Edward Luce and Bertrand Benoit

The London International Financial Futures and Options Exchange is to launch a derivative based on the euro-zone index compiled by Morgan Stanley Capital International, a leading provider of benchmarks for global equity markets.

The move suggests the London-based derivatives market is no longer confident its FTSE-based Eurotop contracts will become the leading benchmark for the euro-zone. There will be three competing euro-zone benchmark contracts listed on European derivatives exchanges.

The "battle of the indices" is a key element in the tussle between Liffe and its two continental competitors, Eurex and Matif, to become the euro-zone's leading derivatives exchange. Volumes on the emerging pan-European stock market should dwarf combined volumes on the separate national stock exchanges.

Most European investors are expected to track stock exchange movements using a benchmark index and to hedge their equity exposure through listed derivatives contracts.

Liffe said the largest US fund managers had made it clear they preferred the MSCI as a benchmark over the Eurotop 100 and Eurotop 300 futures, based on indices from FTSE International, a business 50 per cent owned by the Financial Times.

The MSCI was also favoured over the Dow Jones Stoxx 50 contracts listed on Eurex and the Matif.

Officials pointed to a recent Merrill Lynch/Gallup survey of Europe's leading investors that showed that 56 per cent of fund managers were tracking the MSCI's euro-zone benchmark, against just 12 per cent for FTSE International and 5 per cent for Dow Jones.

However, fund managers said the battle was far from over. Unlike US investors, most continental European investors are still unaccustomed to using benchmarks for equity investments.

"It is very early days to say who is going to win this one," said Bryan Allworthy, equity analyst at Merrill Lynch. "FTSE must be in with a chance, and you have to remember that we polled only continental fund managers. If we had surveyed the UK, you would probably get more weight on FTSE."

Liffe has been worried by the persistence of low trading volumes on its two Eurotop derivatives contracts, which have been comfortably outstripped by volumes on the Stoxx 50 futures listed in Paris and Frankfurt.

The problem has been compounded by the fact the Eurotop contracts are traded on its "open outcry" floor trading system and will only switch to Liffe's new screen-based trading platform in May. In contrast, Stoxx 50 has always been traded on electronic platforms.

Both Eurotop 100 and 300 include a large number of UK companies while the Stoxx and MSCI indices are confined to companies based in the euro-zone. However, Liffe is planning to list FTSE's E11 index, which excludes UK companies.

Brazilian move lifts prices

BENCHMARK BONDS

By Arkady Ostrovsky in London and John Labate in New York

Bond prices regained some ground yesterday, after spending most of the day in negative territory, as investors switched into equities encouraged by signs of stabilisation in Brazil.

Brazil pushed up its interest rate by 300 basis points to halt the outflow of capital. The IMF-backed move was welcomed by both equity and bond markets in Brazil.

"Raising interest rates is a very positive development. It is the only way to stabilise the exchange rate," said Arturo Porzecanski at ING Baring in New York.

Dollar-denominated Latin American Brady bonds were also encouraged by news that capital outflows from Brazil could have been less dramatic than feared. Brazil's C bonds were yesterday trading in a range of 51.125 to 51.75, up more than 50 basis points on the day.

However, the rise in interest rates threatens to swell the budget and raises fresh concern about Brazil's ability to service its domestic debt. "The logic is you have to get interest rates up in order to get them down again," said Richard Gray at Bank of America.

European bond markets closed slightly higher, propped up by a fresh warning from the German government about an economic slowdown.

In its annual economic report, the German government suggested the European Central Bank should consider cutting interest rates further. The benchmark Germany bund future closed 0.06 higher at 170.73.

UK gilts closed slightly lower, on fears that the Bank of England might be reluctant to cut interest rates at its MPC meeting next week. The March 10-year gilt future closed at 120.11, down 0.10.

US Treasuries had fallen in a tight trading range by early afternoon. The benchmark 30-year bond was down ⅛ to 101⅝, sending the yield up to 5.143 per cent.

Among shorter-term issues the two-year note was unchanged at 100, yielding 4.523 per cent, while the 10-year note lost ⅛ to 100⅜, yielding 4.705 per cent.

"People are feeling very comfortable with where we're pricing the long bond," said Dennis Hynes, chief investment strategist at R.W. Pressprich.

"In purely economic terms there's nothing for people to change their views about the bond market," he said.

IDB set to reopen dollar sector

NEW ISSUES

By Khozem Merchant

The Inter American-Development Bank will reopen the dollar issuance market today after a lull while it sought "re-direction", as one banker said.

The pause in dollar issuance followed a disappointing response to a $1bn add-on bond by Italy more than a week ago. The Italian paper was priced to yield 49 basis points over the relevant Treasury at launch but was a casualty of "bad timing", said one banker. Yesterday the bond was quoted at 53 basis points over.

The IDB's five-year $1bn bond will be priced today at an indicated level of 58 basis points over the five-year US Treasury.

It will be the bank's first draw-down of a $9bn borrowing programme for this year. The IDB's last issue was in November. That 10-year $1bn issue is now trading slightly tighter than at launch at 62 basis points over the relevant US Treasury.

ING High Income Principal Preservation Fund, a special purpose vehicle, issued a $500m collateralised loan obligation bond, secured by the cash-flow from a portfolio of loans originating in the US, Canada and Europe. The guarantor was Ambac, a triple A rated insurer in the US whose status confers a similar rating on the issue.

Typically, the guarantor charges a premium to meet the full liability in case the loans default. ING Capital Advisors, which selected the loan portfolio, effectively removes the loans from its balance sheets. The three-year floating rate note was priced at one-month Libor plus 40 basis points.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
Crédit Local de France‡	1.5bn	(a)	99.957R	Feb 2002	0.125R	-	Morgan Stanley DW
Inter-American Dev Bank	1bn	(b)#	(b)R	Feb 2004	0.25R	(b)(4/Nov03)	Deutsche/Goldman Sachs
ING HIPPF†(c)‡	500	(c)	100.00	Aug 2002			Lehman Brothers Inc
SOS Intl(Australia)‡	400	(d)	99.893R	Feb 2002	0.125R	-	Morgan Stanley DW
GECC(f)	150	5.125	99.835	Nov 2005	0.30	+50(4¼Nov03)	Paribas
Federal Home Loan Banks	150	zero	95.369	Feb 2000	0.05	-	Nomura International
EUROS							
Bouygues(g)‡	460	1.70(h)	100.00	Jan 2008			BNP
Credit Suisse Grp Finance(m)	250	3.75	99.68R	Feb 2004	0.30R	+60(5¼Apr04)	CSFB
Deutsche Bank (Lux) SA(e)	200	4.50	99.525R	Feb 2009	0.40R	+69(3¾Jan09)	Deutsche Bank
BBS Finance Ltd(j)‡	100	(j)	99.875R	Feb 2004	0.175R	-	CSFB/Deutsche Bank
EBRD‡	60	(j)	99.75R	Feb 2019	0.50R	-	Lehman Brothers Intl
STERLING							
Severn Trent Water Util Fin	300	6.125	99.922R	Feb 2024	0.625R	+175(8%-21)	Barclays/HSBC Markets
SWISS FRANCS							
Helitex plc(k)	100	2.25	102.00	Aug 2003	3.75	-	Deutsche Bank(Switz)
Tussaki Shinju Co‡	72	2.50	100.35	Feb 2003	1.375	-	Banca del Gottardo
DANISH KRONER							
Secob Overseas Ltd	400	4.25(n)	101.85	Dec 2008	2.00	-	ING Barings-SBL

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ‡ Unlisted. § Convertible. ‡ Floating-rate note. # Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. [illegible]

NEWS DIGEST

SINGAPORE BOND ISSUES

GE Capital raises S$300m in pioneering foreign deal

GE Capital, the financial services group, yesterday claimed to have made the pioneering foreign corporate capital market issue in Singapore, raising S$300m. The move follows the relaxation last year of rules on bond issuance by foreign groups. The government eased the regulations as part of efforts to develop its bond market and strengthen endeavours to create a deep Asian bond market.

Jeffrey Werner, senior vice-president, corporate Treasury and global funding operation, at GE Capital, said the issue, which came three months after a similar exercise in Hong Kong, underlined the group's commitment to developing active capital markets in Asia.

The three-year notes bear a coupon of 3.75 per cent, or about 75 basis points over three-year Singapore government securities. Two-thirds of the issue was placed yesterday; the remainder will be placed by a syndicate in the next few days. Deutsche Bank, lead manager, reckons more foreign corporates will follow GE Capital's lead. **Louise Lucas, Hong Kong**

ASSET-BACKED SECURITISATIONS

Credia launches Y30bn offering

Credia, a medium-sized consumer finance company, has become the first listed Japanese company to launch an asset-backed securitisation backed by revolving loan receivables. Credia's Y30bn secured medium-term note programme was arranged by ING Barings, the European finance group. The yen-denominated international issue, which is listed in Luxembourg, was rated AAA by Japan Credit Rating Agency.

The success of the launch is significant because it has led to the clarification of certain Japanese money-lending laws. Legal cross-overs between such laws and the civil code had hindered securitisation of this type of consumer loans in the past. **Naoko Nakamae, Tokyo**

FUTURES EXCHANGES

Cantor seeks Treasury contract

The Cantor Exchange, the all-electronic futures exchange launched last year in the US by Cantor Fitzgerald and the New York Board of Trade but which had a lacklustre start, is seeking to trade US Treasury futures with differing coupons, in response to changing market conditions. It said it had formally filed with the Commodity Futures Trading Commission for a "flexible coupon" Treasury contract and, if approved, would list a 6 per cent coupon in addition to the current 8 per cent. Cantor denied the move was an effort to reinvigorate trading, saying it was responding to customer requirements. **Nikki Tait, Chicago**

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Jan 27	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	01/01	8.750	107.2768	4.79	+0.08	-0.09	+0.19	-0.82
	08/08	8.750	127.4088	5.09	+0.15	-0.13	+0.09	-0.89
Austria	07/00	5.875	104.0300	2.99	+0.02	-	-0.35	-1.16
	01/08	5.000	108.8500	3.91	+0.01	-0.04	-0.27	-1.39
Belgium	01/00	4.000	100.9900	2.94	+0.01	+0.02	-0.18	-1.12
	03/08	5.750	114.3300	3.86	+0.01	-0.06	-0.26	-1.33
Canada	12/00	5.000	100.4000	4.76	-0.02	-0.08	-0.12	+0.03
	06/08	6.000	107.9500	4.93	-	-0.09	-0.11	-0.43
Denmark	11/00	9.000	109.5000	3.40	+0.01	-0.07	-0.42	-0.81
	11/07	7.000	122.0409	3.97	+0.01	-0.06	-0.29	-1.47
Finland	08/00	4.000	101.4380	2.92	+0.03	-0.02	+0.05	-0.81
	04/08	6.000	116.4240	3.88	+0.01	-0.03	-0.22	-1.32
France	07/00	4.000	101.6000	2.91	+0.04	-0.02	-0.27	-1.06
	10/05	7.750	125.8700	3.38	+0.01	-0.06	-0.24	-1.41
	10/08	8.500	136.7200	3.08	+0.01	-0.09	-0.25	-1.42
	04/29	5.500	114.9800	4.58	+0.01	-0.09	-0.22	-1.12
Germany	08/00	4.000	101.4409	2.90	+0.01	-	-0.30	-0.92
	10/05	6.500	117.8900	3.46	-	-0.08	-0.29	-1.39
	07/08	4.750	108.5000	3.66	-	-0.04	-0.28	-1.44
	01/28	5.625	116.6300	4.59	-	-0.08	-0.28	-1.13
Greece	03/00	9.500	99.7617	9.98	-	-0.07	-0.15	-5.63
	03/08	8.600	116.6969	6.18	-0.06	-0.16	-0.74	-4.99
Ireland	10/01	6.500	108.6600	3.04	+0.01	-0.04	-0.28	-1.73
	08/08	8.000	116.9000	3.85	+0.01	-0.04	-0.21	-1.54
Italy	04/01	4.500	103.2000	2.97	-	-0.04	-0.20	-1.89
	07/03	4.500	106.0700	3.27	+0.01	-0.03	-0.16	-1.74
	05/08	5.000	108.7400	3.87	+0.01	-0.06	-0.08	-1.59
	11/27	6.500	126.7900	4.78	-	-0.06	-0.14	-1.16
Japan	12/00	6.800	111.7500	0.89	+0.05	+0.03	-0.18	-0.20
	12/03	4.100	113.2140	1.30	+0.06	+0.08	-0.09	-0.13
	09/08	1.800	99.9030	1.81	+0.06	+0.03	-0.06	-0.06
	03/18	2.700	101.0059	2.63	+0.07	-0.03	+0.03	-0.06
Netherlands	05/00	9.000	107.5500	2.89	-0.01	-0.04	-0.32	-1.06
	07/08	5.250	111.7200	3.76	-	-0.04	-0.25	-1.30
New Zealand	02/01	8.000	106.5835	5.05	+0.02	+0.07	-0.21	-2.16
	07/09	7.000	111.4718	5.54	+0.04	+0.02	-0.01	-1.25
Norway	05/01	7.000	103.9800	5.12	-0.13	-0.29	-2.66	+0.84
	01/07	5.750	112.0000	4.88	-0.08	-0.24	-0.62	-0.83
Portugal	03/00	5.375	102.6500	2.98	+0.02	-0.04	-0.25	-1.32
	06/08	5.375	111.7300	3.86	-0.01	-0.06	-0.30	-1.49
Spain	04/00	6.750	104.4200	2.92	+0.03	-0.04	-0.16	-1.41
	01/08	6.000	116.3000	3.82	-	-0.06	-0.24	-1.50
Sweden	05/00	10.250	108.4859	3.22	-0.02	-0.08	-0.36	-1.57
	05/08	8.500	119.5230	3.94	+0.01	-0.06	-0.30	-1.89
Switzerland	06/00	4.500	104.1000	1.41	+0.08	+0.05	-0.16	-0.21
	01/08	4.250	115.8000	2.27	+0.02	-0.09	-0.14	-0.69
UK	11/01	7.000	106.1700	4.60	+0.01	+0.01	-0.17	-2.00
	12/03	6.500	109.8500	4.23	-	-0.04	-0.17	-1.58
	10/08	9.000	137.9900	4.19	-	-0.06	-0.25	-1.89
	12/28	6.000	130.7700	4.19	-	-0.06	-0.13	-1.87
US	09/09	4.500	99.7269	4.87	-	-0.04	-0.05	-0.82
	08/03	5.250	102.4250	4.65	-	-0.07	-0.10	-1.03
	05/08	5.625	106.1883	4.79	+0.01	-0.07	-0.07	-0.90
	08/28	5.500	104.0365	5.23	+0.02	-0.03	-0.02	-0.79

London closing. * New York mid-day. Source: Interactive Data/FT Information
Yields: Local market standard/Annualised yield basis. Yields shown for Italy exclude withholding tax at 12.5 per cent payable by nonresidents.

10 YEAR BENCHMARK SPREADS

Jan 27	Bid Yield	Spread vs Euros	Spread vs T-Bonds
Australia	5.09	+1.44	+0.39
Austria	3.94	+0.29	-0.76
Belgium	3.95	+0.30	-0.75
Canada	4.92	+1.27	+0.22
Denmark	3.97	+0.32	-0.73
Finland	3.87	+0.22	-0.83
France	3.71	+0.06	-0.99
Germany	3.65	-	-1.05
Greece	6.11	+2.46	+1.41
Ireland	3.88	+0.23	-0.82
Italy	3.89	+0.24	-0.81
Japan	1.83	-1.82	-2.87
Netherlands	3.80	+0.15	-0.90
New Zealand	5.55	+1.90	+0.85
Norway	4.83	+1.18	+0.13
Portugal	3.92	+0.27	-0.78
Spain	3.94	+0.29	-0.76
Sweden	3.96	+0.31	-0.74
Switzerland	2.37	-1.28	-2.33
UK	4.20	+0.55	-0.50
US	4.70	+1.05	-

Source: Interactive Data/FT Information. London closing. * New York closing. Annualised yield basis.

EMERGING MARKET BONDS

Jan 27	Red date	Coupon	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd vs US
EUROPE								
Croatia	02/02	7.000	BBB-	93.4662	9.49	-0.19	+0.83	+4.88
Poland	07/04	7.125	BBB-	104.8846	6.03	+0.03	-0.04	+1.44
Russia	06/07	10.000	CCC-	27.0611	41.70	-0.73	-4.90	+37.04
LATIN AMERICA								
Argentina	09/27	9.750	BB	80.4724	12.21	-0.25	+1.35	+7.11
Brazil	05/27	10.125	B+	59.7661	17.04	-0.48	+2.06	+11.94
Mexico	05/26	11.500	BB	103.8657	11.04	-0.20	+0.37	+5.97
ASIA								
China	07/06	7.750	BBB+	102.3980	7.31	-0.19	+0.37	+2.68
Philippines	10/16	8.750	BB+	91.4682	9.77	-0.19	+0.55	+4.92
Thailand	04/07	7.750	BBB-	98.4857	8.00	+0.27	-0.06	+3.34
AFRICA/MIDDLE EAST								
Lebanon	07/00	8.125	BB-	103.0925	6.82	-0.19	+0.12	+2.23
South Africa	10/06	8.375	BB+	92.8004	9.73	-0.19	+0.05	+5.10
Turkey	09/07	10.000	B	90.6858	11.75	-0.19	-0.65	+7.09
BRADY BONDS								
Argentina	03/23	5.750	BB	66.2500	9.61	-0.11	+0.79	+4.60
Brazil	04/14	5.000	B+	51.3750	16.07	+0.11	+2.13	+11.26
Mexico	12/19	6.250	BB	74.0586	9.03	-0.04	+0.53	+4.11
Venezuela	03/20	6.750	B+	63.5000	11.33	+0.07	+1.02	+6.35

London closing. Prices in US$. Source: Interactive Data/FT Information.

BOND FUTURES AND OPTIONS

France

NOTIONAL EURO BOND FUTURES (MATIF) €100,000

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	113.17	113.34	+0.04	113.40	113.01	28,941	91,416

LONG TERM EURO BOND OPTIONS (MATIF)

Strike Price	CALLS Feb	CALLS Mar	CALLS -	PUTS Feb	PUTS Mar	PUTS -
110	3.40	3.44	-	-	0.05	-
111	2.41	2.49	-	0.01	0.10	-
112	1.41	1.63	-	0.01	0.24	-
113	0.48	0.92	-	0.08	0.52	-

Est. vol. total, Calls 2,705 Puts 1,680 . Previous day's open int., Calls 14,131 Puts 18,185 .

Germany

NOTIONAL GERMAN BUND FUTURES (DTB) DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	117.60	117.76	+0.06	117.78	117.38	477,083	408,087

NOTIONAL GERMAN EURO (BOBL) FUTURES (DTB) DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	109.71	109.74	-0.01	109.79	109.69	134,804	204,778

NOTIONAL LFB SWAP FUTURES (LIFFE)* 5yr 4.0% DM250,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	102.41	102.49	+0.01	102.41	102.41	40	1040

NOTIONAL LFB SWAP FUTURES (LIFFE)* 10yr 4.5% DM250,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	103.50	103.59	-0.15	103.70	103.50	340	780

Also traded on APT. All Open interest figs. are for previous day

Italy

NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	116.25	116.46	+0.06	116.49	116.15	11795	44997

Spain

NOTIONAL SPANISH BOND FUTURES (MEFF) €100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	118.56	118.51	-0.06	118.59	118.26	20,217	23,450
Jun	-	117.77	-	-	-	-	1

UK

NOTIONAL 5 YEAR GILT FUTURES (LIFFE) £100,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar		109.61	-0.04			0	63
Jun		109.61	-0.04			0	0

NOTIONAL UK GILT FUTURES (LIFFE)* £100,000 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Mar	120.16	120.11	-0.10	120.20	119.75	37834	104160
Jun		120.96	-0.10			0	0

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

LONG GILT FUTURES OPTIONS (LIFFE) £100,000 100ths of 100%

Strike Price	CALLS Mar	CALLS Apr	CALLS May	PUTS Mar	PUTS Apr	PUTS May
11950	1.08	1.97	2.23	0.47	0.61	0.87
12000	0.81	1.65	1.92	0.70	0.79	1.06
12050	0.56	1.36	1.64	0.97	1.00	1.28
12100	0.42	1.11	1.39	1.31	1.25	1.53
12150	0.29	0.89	1.16	1.68	1.53	1.80
12200	0.20	0.70	0.97	2.09	1.84	2.11

Est. vol total, Calls 13 Puts 82. Previous day's open int., Calls 7358 Puts 6798

US

US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Mar	127-12	127-06	-0-05	127-16	127-02	239,963	576,017
Jun	-	126-24	-0-08	126-28	126-22	18,812	77,313
Sep	-	126-16	-	-	-	174	7,315

Japan

NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	130.10	130.01		130.18	130.01	1756	n/a
Jun		129.09				0	n/a

Euro

€ BOND FUTURES (MATIF) €100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	113.35	113.73	+0.12	113.40	113.35	4	197

US CORPORATE BONDS

Jan 26	Red date	Coupn	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd v Govts
UTILITIES								
Pac Bell	07/02	7.25	AA-	106.1689	5.25	+0.01	-0.20	+5.26
NY Tel	06/03	7.00	A+	102.8620	6.70	-	-0.21	+2.12
CWE	06/08	6.00	BBB	116.4113	5.82	+0.02	-0.23	+1.13
FINANCIALS								
GECC	06/07	8.75	AAA	121.0021	5.56	+0.03	-0.18	+0.86
Banc One	08/02	7.25	A	104.9935	5.65	+0.02	-0.13	+5.65
CNA Fin	01/18	6.95	A-	99.1642	7.02	-0.01	-0.30	+1.90
INDUSTRIALS								
WMX Tech	04/99	6.25	BBB+	100.0000	6.09	+0.12	-0.20	+1.59
Wal Mart	05/02	8.75	AA	105.2980	4.95	+0.02	-0.18	+4.96
Dayton Hud	06/21	9.70	A-	136.9903	6.53	-	-0.24	+1.41
AGENCIES								
FHLMC	04/07	7.14	N/A	111.7504	5.35	+0.02	-0.15	+0.66
SLMA	03/03	7.50	N/A	102.5266	6.03	-0.06	-0.25	+0.78
FNMA	02/18	8.95	N/A	137.9483	5.68	-	-0.16	+0.64
FFCB	06/06	8.95	N/A	122.3233	5.24	-	-0.22	+0.56
HIGH YIELD								
Stone Cont	02/01	9.88	B	101.7500	0.00	-	-	-
AK St	12/01	9.13	BB-	108.5000	0.00	-	-	-
Pacalta	08/04	10.75	B-	78.5000	0.00	-	-	-

NY issues: Standard & Poor's ratings. Yields: semi-annual basis. Source: Interactive Data/FT Information.

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
		One month	-	Two year	4.82
Prime rate	7¾	Two month	-	Three year	4.81
Broker loan rate	6½	Three month	4.45	Five year	4.68
Fed.funds	4¾	Six month	4.46	10-year	4.70
Fed.funds at intervention	-	One year	4.51	30-year	5.14

INTERNATIONAL BONDS

Jan 27	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread vs Govts
$								
EIB	04/07	7.250	AAA	112.1403	5.38	-0.13	[illegible]	[illegible]
ABN Amro	08/07	7.125	AA-	103.7605	6.52	+0.03	+0.16	[illegible]
Quebec	01/07	7.000	A+	105.9532	6.05	+0.03	[illegible]	+1.39
Citicorp FRN	02/04	5.312	AA-	94.1155	6.60	+0.03	[illegible]	[illegible]
C$								
Bayer L-Bk	08/04	9.500	AAA	119.4161	5.34	+0.01	-0.29	+0.15
Toronto (M of)	08/04	8.800	AA+	114.6043	5.27	-	-0.24	[illegible]
Bell Canada	07/98	10.625	A+	102.2755	5.21	-	-0.09	[illegible]
Deutsche B FRN	09/02	5.875	AA+	101.4035	5.44	+0.01	[illegible]	[illegible]
£								
EIB	12/07	7.625	AAA	119.0800	4.91	+0.05	-0.24	[illegible]
Dresdner Bk	12/07	7.750	AA-	113.0000	5.82	-	-0.31	+1.54
British Gas	03/00	7.625	A+	102.1372	5.65	+0.01	-0.14	+1.54
Abbey Nat FRN	02/02	7.136	AA	100.0273	4.33	-	-0.29	[illegible]
SFR								
EIB	01/08	3.750	AAA	103.6676	3.27	+0.02	-0.15	[illegible]
Brit Columbia	02/02	3.350	AA	103.9109	1.82	+0.01	-0.11	[illegible]
Hydro-Quebec	05/01	6.750	n/a	109.2775	2.55	+0.03	-0.13	[illegible]
Gen Elect.	09/01	1.711	n/a	99.6988	1.50	+0.02	-0.13	[illegible]
YEN								
IBRD (World Bk)	03/02	5.250	AAA	114.0941	0.89	+0.05	-0.21	-0.19
Spain (Kingdom)	03/02	5.750	AA	115.4100	0.77	+0.05	-0.15	-0.11
Cred Foncier	08/02	4.750	A	111.7583	1.31	+0.05	[illegible]	+0.43
Italy (Rep of)	07/99	0.516	AA	100.0892	[illegible]	-0.04	-0.09	[illegible]
A$								
IBRD (World Bk)	02/08	8.000	AAA	103.7369	5.46	+0.15	-0.12	[illegible]
New Sth Wales Tr	05/06	8.500	n/a	106.8720	5.50	+0.15	-0.07	[illegible]
S. Aus Gov Fin	08/03	7.750	AA	108.1116	5.61	+0.09	[illegible]	[illegible]
GMAC Aust	08/01	9.000	n/a	107.1615	5.56	+0.03	-0.15	[illegible]

London closing. Source: Interactive Data/FT Information. Standard & Poor's ratings. Yields: Local market standard/Annualised basis.

UK BONDS

FTSE Actuaries Government Securities

Price Indices UK Gilts	Wed Jan 27	Day's chge %	Accrued interest	xd adj ytd	Total Return	Duration Years	Duration Yield	% Weight
1 Up to 5 years (17)	122.72	0.08	2.39	0.37	1205.58	2.40	4.63	33.83
2 5-10 years (11)	174.10	-0.04	2.03	0.66	1354.26	5.81	4.28	20.25
3 10-15 years (7)	190.74	-0.03	2.55	0.15	1484.88	8.76	4.27	13.61
4 5-15 years (18)	178.94	-0.04	2.19	0.52	1391.77	6.67	4.28	42.86
5 Over 15 years (4)	238.34	-0.02	2.40	0.00	1620.28	11.87	4.29	22.51
6 Irredeemables (4)	338.00	-0.18	2.21	1.07	1967.96	24.00	4.44	0.80
7 All stocks (43)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	100.00

UK Indices

Index-linked	Wed Jan 27	Day's chge %	Accrued interest	xd adj ytd	Total Return	% Weight
1 Up to 5 years (2)	226.37	0.00	1.48	0.00	1175.55	15.10
2 Over 5 years (9)	257.53	0.06	1.23	1.33	1364.49	84.90
3 5-15 years (5)	242.21	0.03	1.76	0.90	1302.99	42.99
4 Over 15 years (4)	271.27	0.09	0.60	2.29	1477.67	41.91
5 All stocks (11)	251.73	0.06	1.27	1.10	1363.94	100.00

Yield Indices	Jan 27	Jan 26	Yr ago
5 yrs	4.33	4.23	6.31
10 yrs	4.25	4.24	6.13
15 yrs	4.26	4.25	6.09
20 yrs	4.20	4.20	6.03

Coupon Bands [illegible]

FT Fixed Interest Indices

	Jan 27	Jan 26	Jan 25	Jan 22	Jan 21	Yr ago	High*	Low*
Govt. Secs. (UK)	116.93	117.04	116.77	117.17	116.94	102.71	117.17	93.31

UK GILTS PRICES

Notes	Yield Int	Yield Red	Price £	+ or -	52 week High	52 week Low
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Other Fixed Interest

Notes	Yield Int	Yield Red	Price £	+ or -	52 week High	52 week Low
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

من الاصل

NEWS DIGEST

SINGAPORE BOND ISSUES

GE Capital raises S$300m in pioneering foreign deal

ASSET-BACKED SECURITISATIONS

Credis launches Y30bn offer

FUTURES EXCHANGES

Cantor seeks Treasury con

هيكل امن الاجل

CURRENCIES & MONEY

Brazilian Real takes another tumble

MARKETS REPORT

By Florian Gimbel

Brazil's battered currency took another blow on Wednesday as an interest rate increase by the central bank failed to convince nervous currency traders.

The Brazilian Real slipped towards a new low, trading down to R$1.90 versus the dollar, some three per cent down on Tuesday.

The downward lurch came despite an increase in the overnight market interest rate from 32.5 to 35.5 per cent.

Ray Attrill, of the economic consultancy 4Cast in London, said the markets appeared to be doubting the ability of the Brazilian government to see through its stated commitment to reform. Brazil lost a bigger than expected net $541m through its foreign exchange markets on Tuesday, owing to huge dollar outflows.

"If Brazil continues to bleed at this rate, reserves could very soon run dry," said Mr Attrill. He added that the central bank was caught in a terrible dilemma. "If it intervenes, it will only invite further speculation. If it doesn't, it will be charged with neglect."

The government has scored several key reform victories in recent days.

Lawmakers have approved controversial and painful measures included in a sweeping fiscal austerity plan agreed with the International Monetary Fund.

The Brazilian senate signed off on a civil service pension reform bill on Tuesday, and the Chamber of Deputies gave the nod to a bill that would increase a deeply unpopular financial transactions tax. All of which has been part of the government's plan to save or raise R$28bn this year.

This cost cutting drive, however, has put the federal government at odds with the cash-strapped state governments. Rumours circulated yesterday that the city of São Paulo was demanding a restructuring of its R$11bn debt owed to the federal government.

"Ironically, regional opposition has helped galvanise politicians on the federal level: This has made it easier for the government to shove fiscal reform down Congress's throat," said Mr Attrill.

But strategists also pointed to the reassuring resilience of US stock prices as evidence that the Brazilian crisis had yet to have a major impact elsewhere.

"As time passes and the Brazilian crisis doesn't spread to the US asset market, this underpins the dollar," said Kit Juckes of NatWest. For its part, the US currency ended London trading hours slightly stronger against the euro at $1.150, from £1.157 on Tuesday.

■ Sterling shrugged off depressed data showing a further deterioration in the UK's trade deficit with the rest of the world.

The deficit yawned wider in November, swelling from £1.6bn to £2.2bn. In the year to December, the deficit with countries outside the European Union jumped to a record £15.7bn.

The pound actually against the Euro, edging up to three week highs before settling at £0.696, from £0.697 previously. In part, it was helped by the dollar's renewed strength. But some strategists argued the worst may be over for UK exporters struggling with more competitively priced rivals in European markets at least.

"The deterioration in the trade balance last year was pretty much outside Europe," said Kit Juckes, strategist at NatWest.

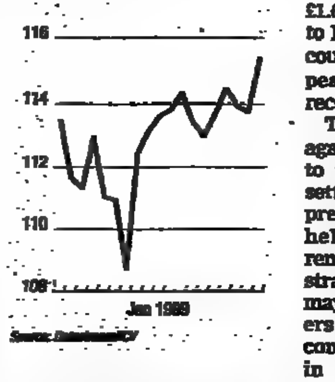
"What the figures tell you is that the UK was having a bad time along with everyone else exporting to Asia. The UK is having no worse a time exporting to continental Europe than it is importing."

Mr Juckes suggested there was no longer much of a case for arguing the pound was over-valued against the euro.

■ Norway yesterday cut its key overnight lending rate from 10 to 9.5 per cent, following a recovery in value of the krone and signals that the domestic economy was poised to slow. But the Norwegian currency did not weaken as a result. Instead, it rose from NKr8.611 to NKr8.576 versus the euro. The cut surprised economists, who had expected the central bank to wait for further evidence of a slowdown.

Dollar

Against the yen (¥ per $)



Source: Datastream/ICV

■ POUND IN NEW YORK

Jan 27	—Latest—	—Prev. close—
£ spot	1.6455	1.6585
1 mth	1.6442	1.6582
3 mth	1.6424	1.6552
1 yr	1.6398	1.6520

■ OTHER CURRENCIES

Jan 27	£	$
Czech Rp	52.4[illegible] - 52.4[illegible]	31.7370 - 31.75[illegible]
Hungary	359.516 - 359.022	217.080 - 217.280
Iran	4957.50 - [illegible]	3000.00 - 3000.00
Kuwait	0.4985 - 0.4995	[illegible]
Peru	[illegible] - 5.5030	[illegible]
Poland	5.9461 - [illegible]	3.6000 - 3.6100
Russia	[illegible]	[illegible]
U.A.E.	6.0662 - 6.0700	3.6727 - 3.6732

POUND SPOT FORWARD AGAINST THE POUND

Jan 27		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria*	(Sch)	19.7630	+0.0324	548 - 712	19.8018	19.7255	19.7200	2.6	19.6941	2.6	19.250	2.3	103.1
Belgium*	(BFr)	57.9375	+0.0949	134 - 616	58.0510	57.8270	57.8131	2.6	57.5588	2.6	56.5772	2.3	103.1
Denmark	(DKr)	10.6800	+0.0177	733 - 867	10.6873	10.6505	10.6813	2.1	10.6253	2.0	10.4874	1.8	108.2
Finland*	(FM)	8.5395	+0.0140	[illegible] - 430	8.5580	8.5230	[illegible]	2.6	8.4837	2.6	8.339	2.3	81.7
France*	(FFr)	9.4211	+0.0154	172 - 250	9.4386	9.4031	9.4008	2.6	9.3596	2.6	9.1990	2.3	105.5
Germany*	(DM)	2.8091	+0.0047	078 - 102	2.8151	2.8031	2.803	2.6	2.7908	2.6	2.7431	2.3	104.4
Greece	(Dr)	461.486	+0.1240	171 - 758	462.554	460.639	463.244	-4.6	467.147	-4.9	480.312	-4.1	83.2
Ireland*	(I£)	1.1312	+0.0019	307 - 316	1.1333	1.1290	1.1287	2.6	1.1238	2.6	1.1046	2.4	91.0
Italy*	(L)	2780.94	+4.5800	[illegible] - 709	2786.39	2775.85	2774.97	2.6	2762.8	2.6	2715.86	[illegible]	78.0
Luxembourg*	(LFr)	57.9375	+0.0949	134 - 616	58.0510	57.8270	57.8131	2.6	57.5588	2.6	56.5772	2.3	103.1
Netherlands*	(Fl)	3.1651	+0.0052	637 - 664	3.1713	3.1581	3.1583	2.6	3.1445	2.6	3.0900	2.3	102.5
Norway	(NKr)	12.3187	-0.0308	076 - 257	12.3798	12.3025	[illegible]	-2.1	12.3728	-1.8	12.4217	-0.9	93.2
Portugal*	(Es)	287.938	+0.4720	819 - 059	288.506	287.385	287.321	2.6	286.081	2.6	281.178	2.3	92.4
Spain*	(Pta)	238.959	+0.3910	[illegible]	239.440	238.510	238.458	2.6	237.411	2.6	233.250	2.3	77.1
Sweden	(SKr)	12.7216	-0.0689	140 - 292	12.8069	12.7112	12.6962	[illegible]	12.6457	2.4	12.464	2.0	88.8
Switzerland	(SFr)	2.3092	+0.0086	079 - 104	2.3148	2.3048	2.3008	4.4	2.2837	4.4	2.2222	[illegible]	107.5
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	100.3
Euro	(€)	1.4362	+0.0023	355 - 368	1.4381	1.4330	1.4331	2.6	[illegible]	2.6	[illegible]	2.3	-
SDR†	-	1.182610	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.6519	-0.0074	515 - 523	1.6580	1.6510	-	-	-	-	-	-	-
Brazil	(R$)	3.1225	[illegible]	[illegible]	3.1913	3.0389	-	-	-	-	-	-	-
Canada	(C$)	2.5112	[illegible]	[illegible]	2.5209	2.5090	2.5095	0.8	2.5057	0.7	2.4986	0.5	76.7
Mexico	(New Peso)	16.8143	-0.1441	978 - 307	[illegible]	16.7014	17.236	-30.3	18.0388	-29.2	21.190	[illegible]	-
USA	($)	1.6521	-0.0074	517 - 525	1.6592	1.6512	[illegible]	0.9	1.6489	0.8	1.6462	0.4	104.5
Pacific/Middle East/Africa													
Australia	(A$)	2.6247	-0.0090	230 - 264	2.6378	2.6154	2.6224	1.1	2.6185	0.9	2.6134	0.5	70.8
Hong Kong	(HK$)	12.8017	-0.0583	982 - 052	12.8583	12.7982	12.8018	0.0	12.822	-0.6	13.077	[illegible]	-
India	(Rs)	70.1978	-0.3434	766 - 189	[illegible]	[illegible]	70.4582	-4.5	[illegible]	-8.2	75.2728	-7.2	-
Indonesia	(Rupiah)	15075.42	-109.03	047 - 038	[illegible]	15014.00	15317.96	-35.2	16675.28	[illegible]	20618.70	-30.8	-
Israel	(Shk)	6.7495	-0.0316	394 - 596	6.7600	[illegible]	-	-	-	-	-	-	-
Japan	(Y)	190.655	+1.2780	606 - 785	191.130	187.980	189.87	5.1	188.146	5.3	[illegible]	4.9	[illegible]
Malaysia‡	(M$)	6.2780	-0.0261	760 - 799	6.3048	6.2749	-	-	-	-	-	-	-
New Zealand	(NZ$)	3.0760	-0.0253	724 - 796	3.0902	3.0720	3.0707	2.0	3.0645	1.5	[illegible]	0.5	91.1
Philippines	(Peso)	63.8538	+0.0459	905 - 170	64.1176	63.4792	64.303	-8.4	65.1405	-8.1	68.9053	-7.9	-
Saudi Arabia	(SR)	6.1962	-0.0271	944 - 979	6.2218	6.1938	6.2001	-0.8	6.2146	-1.2	6.286	-1.4	-
Singapore	(S$)	2.7887	-0.0051	872 - 902	2.7937	2.7737	2.779	4.2	2.7643	[illegible]	2.7136	2.5	-
South Africa	(R)	9.9333	-0.0901	226 - 439	9.9706	9.8990	10.0157	-10.0	10.1806	-10.3	[illegible]	-10.0	-
South Korea	(Won)	1940.81	-9.9300	827 - 334	[illegible]	1938.13	-	-	-	-	-	-	-
Taiwan	(T$)	53.3794	-0.2225	838 - 749	53.5839	[illegible]	53.4131	-0.8	53.5288	-1.1	54.0007	-1.2	-
Thailand	(Bt)	60.7973	-0.1084	000 - 946	[illegible]	60.5370	60.9657	-3.3	61.2925	[illegible]	62.885	-3.4	-

† Rates for Jan 26. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. * EMU member. The exchange rates printed in this table are also available on the internet at http://www.FT.com. We regret that because of technical problems the day's high and low values given in yesterday's paper were incorrect.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Jan 27		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P. Morgan index
Europe													
Austria*	(Sch)	11.9624	+0.0726	[illegible] - 644	[illegible]	11.9015	11.9465	1.7	11.907	[illegible]	11.7234	2.0	102.9
Belgium*	(BFr)	35.0690	+0.2136	[illegible] - 751	35.1520	34.9800	35.0203	1.7	34.9054	1.9	34.3684	2.0	103.1
Denmark	(DKr)	6.4645	+0.0395	620 - 670	6.4777	6.4320	6.4581	1.2	6.4436	1.3	6.3707	1.5	105.7
Finland*	(FM)	5.1680	+0.0315	[illegible]	5.1810	5.1425	[illegible]	1.7	5.1449	1.9	5.0656	2.0	81.2
France*	(FFr)	5.7025	+0.0347	[illegible]	5.7159	5.6734	5.6945	1.7	5.678	1.9	[illegible]	2.0	106.1
Germany*	(DM)	1.7003	+0.0104	[illegible]	1.7043	1.6916	1.6979	1.7	1.6924	[illegible]	1.6663	2.0	104.1
Greece	(Dr)	279.320	+1.9200	210 - 430	280.080	278.130	280.61	-5.5	283.295	-5.7	291.77	-4.5	62.8
Ireland*	(I£)	1.4606	-0.0090	[illegible]	1.4681	1.4572	1.4627	-1.7	1.4674	-1.9	1.4904	-2.0	-
Italy*	(L)	1683.27	+10.2500	[illegible]	1687.23	[illegible]	1680.93	1.7	1675.46	[illegible]	1649.64	2.0	78.7
Luxembourg*	(LFr)	35.0690	+0.2136	[illegible] - 751	35.1520	34.9800	35.0203	1.7	34.9054	[illegible]	[illegible]	2.0	103.1
Netherlands*	(Fl)	[illegible]	+0.0117	154 - 181	1.9203	1.9050	[illegible]	1.6	1.9089	1.8	1.8776	2.0	[illegible]
Norway	(NKr)	7.4552	+0.0147	515 - [illegible]	7.4837	7.4359	7.4737	-3.0	7.5032	-2.6	7.5457	-1.2	92.3
Portugal*	(Es)	174.287	+1.0820	[illegible] - 317	174.708	173.400	174.045	1.7	173.479	1.9	170.805	2.0	92.8
Spain*	(Pta)	144.846	+0.8810	821 - 871	144.998	143.910	144.445	1.7	143.975	1.9	141.758	2.0	78.8
Sweden	(SKr)	7.7003	-0.0077	[illegible]	7.7391	[illegible]	7.6906	1.5	7.6689	[illegible]	7.5714	1.7	83.0
Switzerland	(SFr)	1.3977	+0.0114	[illegible]	1.4015	1.3890	1.3936	3.5	1.3849	3.7	1.3498	3.4	107.5
UK	(£)	1.6521	-0.0074	517 - 525	1.6592	1.6512	1.6508	[illegible]	1.6489	0.8	1.6462	0.4	99.8
Euro	(€)	[illegible]	-0.0071	501 - 505	1.1568	1.1475	[illegible]	-1.7	[illegible]	-1.9	[illegible]	-2.0	-
SDR†	-	0.71276	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	[illegible]	-	998 - 999	0.9999	[illegible]	-	-	-	-	-	-	-
Brazil	(R$)	1.8900	[illegible]	800 - 000	1.9300	1.8400	-	-	-	-	-	-	-
Canada	(C$)	1.5200	+0.0010	195 - 205	1.5218	1.5192	1.5201	-0.1	1.5202	0.0	1.5186	0.1	78.3
Mexico	(New Peso)	10.1775	-0.0415	700 - 850	10.1800	[illegible]	10.4425	[illegible]	10.94	-30.0	12.6776	[illegible]	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	105.7
Pacific/Middle East/Africa													
Australia	(A$)	1.5887	+0.0023	881 - 893	[illegible]	1.5818	[illegible]	0.3	[illegible]	[illegible]	1.5872	0.1	78.7
Hong Kong	(HK$)	7.7488	-0.0005	485 - 490	7.7492	7.7450	7.7548	-0.9	7.7758	-1.4	[illegible]	-2.5	-
India	(Rs)	42.4900	-0.0175	875 - 925	42.5070	42.4850	[illegible]	-0.4	43.23	-7.0	45.725	-7.6	-
Indonesia	(Rupiah)	[illegible]	[illegible]	000 - 000	[illegible]	9050.00	9400	-36.2	10112.5	-43.3	12526	-37.2	-
Israel	(Shk)	4.0854	-0.0009	[illegible] - 905	4.0905	4.0797	-	-	-	-	-	-	-
Japan	(Y)	115.420	+1.2880	400 - 440	115.720	[illegible]	115.015	4.2	114.105	4.6	110.155	4.8	134.7
Malaysia‡	(M$)	3.8000	-	000 - 000	3.8000	3.8000	-	-	-	-	-	-	-
New Zealand	(NZ$)	1.8618	-0.0089	601 - 635	1.8657	1.8574	1.8601	1.2	1.8594	0.6	[illegible]	0.2	-
Philippines	(Peso)	38.6500	+0.2000	000 - 000	38.8000	38.5000	38.9515	-9.4	39.5035	[illegible]	[illegible]	-8.3	-
Saudi Arabia	(SR)	3.7505	+0.0004	503 - 505	3.7508	3.7503	3.7557	-1.7	3.7600	-1.9	3.8165	-1.8	-
Singapore	(S$)	[illegible]	+0.0045	875 - 885	1.6895	1.6740	1.6834	3.3	1.6764	2.7	1.6515	2.2	-
South Africa	(R)	6.0125	-0.0275	075 - 175	6.0300	5.9800	6.067	-10.9	6.1798	-11.1	6.64	-10.4	-
South Korea	(Won)	1174.75	-0.7500	350 - 600	1177.00	[illegible]	-	-	-	-	-	-	-
Taiwan	(T$)	32.3180	+0.0100	[illegible]	32.3700	32.2500	32.395	-1.7	32.46	-1.9	32.805	-1.3	-
Thailand	(Bt)	36.8000	+0.1000	[illegible]	36.8500	36.5300	36.93	-4.2	37.17	-4.0	38.2	-3.8	-

† SDR rate per $ for Jan 26. ‡ Official rate set by Malaysian government. The WM/Reuters rate for the valuation of capital assets is 3.42 MYR/USD, a discount of 28% on the official rate. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. UK, Ireland & Euro are quoted in US currency. J.P. Morgan nominal indices Jan 26: Base average 1990=100. Bid, offer, mid spot rates and forward rates in both this and the Dollar table are derived from THE WM/REUTERS 4pm CLOSING SPOT and FORWARD RATE services. Some values are rounded by the F.T. * EMU member. The exchange rates printed in this table are also available on the internet at http://www.FT.com. We regret that because of technical problems the day's high and low values given in yesterday's paper were incorrect.

WORLD INTEREST RATES

MONEY RATES

Jan 27	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Euro-zone	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	3.00	3.00
Switzerland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	1.00	-
US	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	4.50	-
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	0.50	-
■ $ LIBOR BBA London								
Interbank Fixing	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
US Dollar CDs	-	4.73	4.73	4.73	4.75	-	-	-
Euro Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
SDR Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
BBA Euro Libor	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
Euro Euribor	-	3.126	3.080	3.020	2.985	-	-	-
EONIA	3.13	-	-	-	-	-	-	-
EURONIA	3.1197	-	-	-	-	-	-	-

London Interbank fixing rate (LIBOR) is the BBA London rate fixed at 11am. Mid rates are shown for the domestic Money Rates, US$ CDs, Euro & SDR Linked Deposits (Ds).

INTERNATIONAL CURRENCY RATES

Jan 27	Short term	7 days notice	One month	Three months	Six months	One year
Euro	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Danish Krone	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Swiss Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Canadian Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
US Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japanese Yen	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Asian $Sing	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	3 - [illegible]

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH EURIBOR FUTURES (MATIF) [illegible]

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	97.010	97.015	+0.005	97.015	96.990	5,124	31,581
Jun	97.150	97.155	+0.005	97.155	97.135	5,352	19,010

■ THREE MONTH EURIBOR FUTURES (LIFFE) €1m 100 - rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	96.990	97.010	-	97.015	96.990	36027	65380
Jun	97.150	97.160	+0.005	97.165	97.130	29734	76980
Sep	97.180	97.205	-	97.210	97.165	18810	42174
Dec	96.965	96.965	-0.010	96.975	96.940	9851	57571

■ THREE MONTH EURO LIBOR FUTURES (LIFFE) €1m 100 - rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	97.005	97.010	+0	97.015	96.985	15268	171240
Jun	97.130	97.160	+0.010	97.160	97.130	10941	143932
Sep	97.180	97.205	+0	97.210	97.175	4911	130536
Dec	96.965	96.965	-0.005	96.970	96.945	6207	103896

■ EURIBOR OPTIONS (LIFFE) €1m 100 - rate

Strike Price	CALLS Mar	Jun	Sep	Dec	PUTS Mar	Jun	Sep	Dec
97125	0.015	0.025			0.130	0.140		
97250	0.005	0.010	0.085	0.085	0.245	0.250	0.155	0.175
97375	0	0.005			0.365	0.370		
97500	0	0	0.020	0.030	0.490	0.490	0.360	0.370

Est. vol. total, Calls 528 Puts 4823. Previous day's open int., Calls 22093 Puts 8375

■ THREE MONTH EURO LIBOR OPTIONS (LIFFE) €1m 100 - rate

Strike Price	CALLS Mar	Jun	Sep	Dec	PUTS Mar	Jun	Sep	Dec
97125	0.015	0.025			0.130	0.140		
97250	0.005	0.010	0.065	0.085	0.245	0.250	0.155	0.175
97375	0	0.005			0.365	[illegible]		
97500	0	0	0.020	0.030	0.490	0.490	0.360	0.370

Est. vol. total, Calls 2360 Puts 3973. Previous day's open int., Calls 332209 Puts 192356

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m 100 - rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	98.630	98.650	+0.010	98.670	98.610	14005	67568
Jun	98.540	98.540	-0.010	98.550	98.520	[illegible]	49082
Sep	98.420	98.430	-0.010	98.440	98.390	2403	30427
Dec	98.090	98.100	-0.010	98.110	98.090	1040	12037

■ THREE MONTH EUROYEN FUTURES (LIFFE) ¥100m 100 - rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar		99.36	-0.01			0	0
Jun		99.45	-0.03			0	0
Sep		99.40	-0.02			0	0

* LIFFE futures also traded on APT

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr1m 100 - rate

Strike Price	CALLS Mar	Jun	Sep	PUTS Mar	Jun	Sep
98750	0.070	0.110	0.130	0.170	0.320	0.460
98875	0.040			0.265		

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 2825 Puts 2062

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Jan 27		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	€
Belgium*	(BFr)	100	18.43	16.26	4.848	1.952	4800	5.463	21.26	497.0	412.5	21.96	3.986	1.726	4.334	2.852	[illegible]	2.479
Denmark	(DKr)	54.25	10	8.821	2.630	1.059	2604	2.964	11.53	[illegible]	[illegible]	11.91	2.162	0.936	2.351	1.547	178.5	1.345
France*	(FFr)	61.50	11.34	10	2.982	1.201	2952	3.360	13.07	305.6	253.7	13.50	2.451	1.062	2.666	1.754	202.4	1.525
Germany*	(DM)	20.63	3.802	3.354	1	0.403	990.0	1.127	4.385	102.5	85.07	4.529	[illegible]	0.356	0.894	0.588	67.88	0.511
Ireland*	(I£)	51.22	9.442	8.329	2.483	1	2459	2.798	10.89	254.6	211.3	11.25	2.041	0.884	2.220	1.461	168.6	1.270
Italy*	(L)	2.083	0.384	0.339	0.101	0.041	100	0.114	0.443	10.35	8.593	0.457	0.083	0.036	0.090	0.059	6.857	0.052
Netherlands*	(Fl)	18.31	3.374	2.977	0.888	0.357	873.6	1	3.891	90.97	75.50	4.019	0.730	0.316	0.793	0.522	60.25	0.454
Norway	(NKr)	47.04	8.671	7.649	2.281	0.918	[illegible]	2.570	10	233.8	194.0	10.33	1.875	0.812	2.039	1.341	154.8	1.166
Portugal*	(Es)	20.12	3.709	3.272	0.976	0.393	965.8	1.099	4.278	100	82.99	4.418	0.802	0.347	0.872	0.574	66.22	0.499
Spain*	(Pta)	24.24	4.469	3.942	1.175	0.473	1164	1.324	5.154	120.5	100	5.324	0.966	0.418	1.051	0.691	79.79	0.601
Sweden	(SKr)	45.54	8.395	7.405	2.208	0.889	2186	2.488	9.682	226.3	187.8	10	1.815	0.786	1.974	1.298	149.9	1.129
Switzerland	(SFr)	25.09	4.625	4.080	1.216	0.490	1204	1.371	5.334	124.7	103.5	5.509	1	0.433	1.088	0.715	82.58	0.622
UK	(£)	57.93	10.68	9.421	2.809	1.131	2781	3.165	12.32	287.9	239.0	12.72	2.309	1	2.511	1.652	190.7	1.436
Canada	(C$)	23.07	4.253	3.752	1.119	0.450	1107	1.260	4.906	114.7	95.16	5.066	0.920	0.398	1	0.658	75.93	0.572
USA	($)	35.07	6.465	5.702	1.700	0.685	1683	1.916	7.458	174.3	144.6	7.700	1.398	0.605	1.520	1	115.4	0.869
Japan	(Y)	30.38	5.601	4.941	1.473	0.593	1458	1.660	6.459	151.0	125.3	6.672	1.211	0.524	1.317	0.866	100	0.753
Euro	(€)	40.34	7.436	6.560	1.956	0.788	1936	2.204	8.576	200.5	166.4	8.858	1.608	0.696	1.749	1.150	132.8	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100. * EMU member.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	0.5930	0.5895	-0.0031	0.5900	0.5890	6,680	[illegible]
Jun	-	0.5925	-0.0031	-	0.5925	4	1,488
Sep	-	0.5967	-	-	-	[illegible]	163

■ JAPANESE YEN FUTURES (IMM) Yen 12.5m per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	0.8836	0.8774	-0.0055	0.8867	0.8725	8,944	72,236
Jun	0.8894	0.8884	-0.0046	[illegible]	0.8840	73	4,168
Sep	-	0.8965	-0.0067	-	0.8965	60	1,444

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	0.7233	0.7188	-0.0046	0.7237	0.7170	5,286	38,108
Jun	0.7247	0.7245	-0.0054	0.7247	0.7245	6	405
Sep	-	0.7322	-0.0039	-	0.7322	20	340

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	1.6576	1.6530	-0.0042	1.6578	1.6492	4,046	40,912
Jun	1.6480	1.6488	-0.0058	1.6480	1.6480	17	1,316
Sep	-	1.6480	-0.0074	-	1.6480	280	230

UK INTEREST RATES

LONDON MONEY RATES

Jan 27	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	[illegible] - 5	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling CDs	-	-	[illegible] - 6	[illegible]	[illegible]	[illegible]
Treasury Bills	-	-	[illegible]	[illegible]	-	-
Bank Bills	-	-	[illegible]	[illegible]	-	-
Local authority deps.	[illegible]	6 - [illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Discount Market deps	6 - [illegible]	[illegible]	-	-		

UK clearing bank base lending rate 6 per cent from Jan 7, 1999

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	4	6.5	6.5	6.25	6.25

Certs of Tax dep. under £100,000 is 4pc. Deposits withdrawn for cash 2pc. Ave. tender rate of discount on Jan 22: 5.2527pc. ECGD fixed rate Stlg. Export Finance. Make up day Dec 31, 1998. Agreed rate for period Jan 26, 1999 to Feb 23, 1999, Scheme III 7.74pc. Reference rate for period Dec 1, 1998 to Dec 31, 1998, Schemes IV & V 6.501pc. Finance House Base Rate 7pc for Jan 1999.

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	94.380	94.410	+0.020	94.430	94.380	28565	185548
Jun	94.680	94.740	+0.050	94.750	94.660	25987	191950
Sep	94.850	94.930	+0.055	94.940	94.850	[illegible]	173906
Dec	94.670	94.740	+0.060	94.760	94.670	7821	140780
Mar	94.970	95.025	+0.035	95.040	94.970	9892	123537

Also traded on APT. All Open interest figs. are for previous day

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Mar	Jun	Sep	PUTS Mar	Jun	Sep
94250	0.200	0.535	0.750	0.040	0.045	0.070
94375	0.115			0.080		
94500	0.060	[illegible]	0.560	0.150	[illegible]	0.130
94625	0.030			0.245		
94750	0.015	0.185	0.380	0.355	0.195	0.200
94875	0.010			[illegible]		

Est. vol. total, Calls 44474 Puts 9098. Previous day's open int., Calls [illegible] Puts [illegible]

EMS EUROPEAN CURRENCY UNIT RATES

Jan 27	Euro cen. rates	Rate against Euro €	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Greece	353.109	321.85	-0.2	-8.85	9.35	59
Denmark	7.46038	7.4358	-0.0002	-0.33	0.00	2
NON EMU MEMBERS						
UK	0.653644	[illegible]	-0.0008	6.60	[illegible]	-

Euro central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Euro; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Euro central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Euro central rate. 17/9/92: Sterling suspended from ERM. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Feb	Mar	Apr	PUTS Feb	Mar	Apr
1.640	2.24	2.87	3.19	0.39	0.96	1.54
1.650	1.51	2.11	2.60	0.65	1.32	1.95
1.660	0.93	1.52	2.19	[illegible]	1.76	2.39

Previous day's vol., Calls 0 Puts 0 . Prev. day's open int., Calls 462 Puts 1,463

■ PHILADELPHIA SE D-MARK OPTIONS DM62,500 (cents per DM)

Strike Price	CALLS Feb	Mar	Apr	PUTS Feb	Mar	Apr
0.590	0.56	[illegible]	1.19	0.33	[illegible]	0.74
0.595	0.31	0.58	0.92	[illegible]	0.81	0.97
0.600	0.17	0.40	0.70	[illegible]	1.10	1.26

Previous day's vol., Calls 0 Puts 2 . Prev. day's open int., Calls 400 Puts 3,590

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	95.07	95.06	-	95.07	95.05	[illegible]	473,225
Jun	95.13	95.11	-0.02	95.14	95.11	[illegible]	425,876
Sep	95.14	[illegible]	-0.01	95.16	95.12	[illegible]	377,021

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	95.81	95.79	-0.05	95.81	95.78	84	1,947
Jun	-	95.92	-0.03	-	-	2	108

All Open interest figs. are for previous day

BASE LENDING RATES

	%
Adam & Company	6.00
Allied Irish Bank (GB)	6.00
●Henry Ansbacher	6.00
Banco Bilbao Vizcaya	6.00
Bank of Cyprus	6.00
Bank of Ireland	6.00
Bank of India	6.00
Bank of Scotland	6.00
Barclays Bank	6.00
Brit Bk of Mid East	6.00
●Brown Shipley & Co Ltd	6.00
Citibank NA	6.00
Clydesdale Bank	6.00
The Co-operative Bank	6.00
Coutts & Co	6.00
Cyprus Popular Bank	6.25
Duncan Lawrie	6.00
Exeter Trust Limited	7.00
Financial & Gen Bank	6.00
●Robert Fleming & Co	6.00
Habib Bank AG Zurich	6.00
Heritable & Gen Inv Bk	6.00
C. Hoare & Co	6.00
●SG Hambros Bank & Trust	6.00
Hongkong & Shanghai	6.00
Investec Bank (UK) Ltd	6.00
Julian Hodge Bank	6.00
●Leopold Joseph & Sons	6.00
Lloyds Bank	6.00
Midland Bank	6.00
NatWestminster	6.00
●Rea Brothers	6.00
Royal Bk of Scotland	6.00
Scottish Widows Bank	6.75
●Singer & Friedlander	6.00
Smith & Williamson	6.00
Sun Bank	6.00
TSB	6.00
United Bank of Kuwait	6.00
Unity Trust Bank Plc	6.00
Whiteaway Laidlaw	6.00
Yorkshire Bank	6.00

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COMMODITIES & AGRICULTURE

Oil prices firm despite rise in US stocks

MARKETS REPORT

By Robert Corzine, Gillian O'Connor and Paul Solman

Oil prices firmed yesterday in spite of bearish data from the US, where weekly figures from the American Petroleum Institute and the federal government showed another rise in crude stocks.

Brent Blend for March delivery was quoted at $10.81 a barrel in late trading on London's International Petroleum Exchange, up 17 cents on Tuesday's close.

The API reported a 5.4m barrel rise in US crude inventories, while the government's Energy Information Administration put the increase at 3.1m barrels. Both reported a drop in gasoline and distillate stocks, a development that gave the markets some support.

Traders continued to shrug off the increasingly strident rhetoric from the Gulf, where Iraq blamed Saudi Arabia for causing last year's oil price collapse.

Baghdad said Saudi Arabia should cut sharply its oil output to boost prices.

Traders watched with fascination as London Metal Exchange copper stocks crept ever closer to their all-time record. Yesterday's rise, a hefty 12,375 tonnes, left the total at 641,200 tonnes. That is just 4,100 tonnes shy of the 645,300 tonne record reached in January 1978. With 200,000 tonnes of Chilean metal still rumoured to be on the way to Europe, traders feel stocks are bound to keep rising.

Earlier in the day, Rio Tinto, the mining group, announced a 58 per cent increase in refined copper production for 1998, to 326,300 tonnes. Asarco, the US copper miner, blamed the lower copper price for its dividend cut.

Reports that Colombia's coffee exports could be delayed after Monday's earthquake failed to buoy coffee prices yesterday. The most actively traded March robusta contract on the London International Financial Futures and Options Exchange closed down $19 at $1,745 a tonne.

Brazil's recent currency devaluation could have bearish implications for the coffee market, traders said. The country is the world's largest coffee producer.

Dreams fade as Nigerian coal project drags to a halt

The Okpara mine is suffering from under-investment, lack of political will, and poor transport facilities, writes Mark Turner

When David Lewis, former deputy manager of Penallta coal mine in South Wales, saw an advertisement in his local newspaper calling for technicians to resuscitate Nigeria's moribund coal industry, he just about knew where the country was.

Six years later he is at the forefront of a federal government project to revitalise the mine that built Enugu, the administrative capital of eastern Nigeria, and that offers the country a real opportunity to diversify away from the oil trade.

However, leaning back in a comfortable chair, sandals perched on the low table that dominates his fan-cooled living room, Mr Lewis sips his beer and mourns a dream he fears is rapidly slipping away.

When he and his team arrived in Nigeria in late 1993, they found Okpara mine under water, served by a potholed and overgrown dirt track, and reliant on defunct 1950s technology – installed in the days when Nigeria produced well over 500,000 tonnes of coal a year.

Over the following two years, they fixed basic equipment, repaired the road and hired staff from the region – creating production capacity of about 3,000 tonnes of coal a month. After waiting for an order for 26 months, some more up-to-date equipment finally arrived from the UK early last year.

But, as with so many reasonably conceived but poorly implemented projects in Nigeria, progress has dragged to a halt, with the mine suffering from chronic under-investment and struggling to keep afloat on a day-to-day basis.

"The philosophy was sound, but everyone thought it would be a quick fix," says Mr Lewis. "Recently it has become very difficult. Funding is low: we need all the help we can get."

The wiry manager is joined by his considerably larger house-mate, Mark Speed, an electrical engineer from Ammanford who worked on the Channel Tunnel, and who has recently married an Enugu woman.

The pair look wistfully at advertisements for hi-tech coal cutters in a UK trade magazine. "Being very conservative, with equipment like this I could produce 15,000 tonnes a month," says Mr Lewis. "I used to do that in a week back home."

With a $12m investment, he believes the mine could be making a return within five years. At about $30 a tonne, Okpara coal could earn Nigeria more than $5m a year in foreign exchange.

Buyers in the UK and the Netherlands have shown interest in the coal, which has a low sulphur and ash content, and a first consignment was exported in 1997.

"Potential export demand stands at over 15m tonnes annually," says Professor Gregory Iwu, head of the parastatal Nigeria Coal Corporation. With 639m tonnes proven and 2.75bn tonnes of inferred reserves, the country could supply that amount for many years.

In Nigeria, there is considerable opportunity to expand the domestic fuel base away from wood; potential investors in a cement factory in Kaduna, northern Nigeria, have expressed an interest in 250,000 tonnes of coal annually, and Enugu coal is already used by West African Batteries and other manufacturers. Side products could include tar oils, ammonia liquor and pharmaceutical and medical products.

Ironically, Enugu was once intended to provide 400,000 tonnes of coal a year to Nigeria's Ajaokuta steel project, which has since turned out to be one of the country's most notorious white elephants.

However, despite this potential, political will has faded and the coal corporation is "grossly underfunded", according to Professor Iwu, who estimates that for mechanisation alone he needs $16.5m. He has embarked on a far-reaching campaign to keep the country's coal hopes alive, and is starting to court foreign investment.

As things stand, Okpara mine looks like the 1950s photo in a "then and now" feature. To reach it by road is challenge enough; once there, one immediately notices a collapsed conveyor that used to transport coal across a small valley.

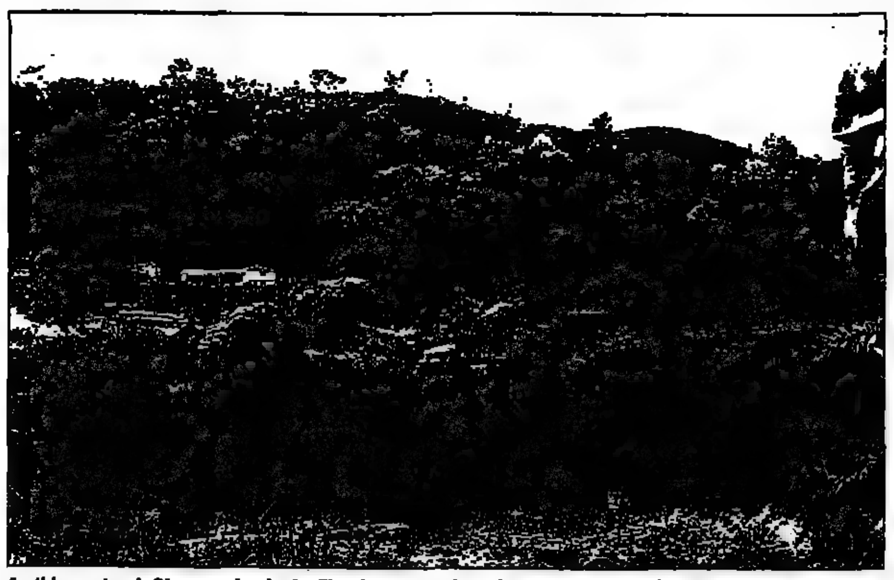
Management is an arduous and hands-on affair – "if you don't want to get your hands dirty, you don't come," says Mr Lewis. Experience is in short supply, as Enugu's previous skills base faded away after the 1960s, and training is a labour of love.

Of all the difficulties, the greatest is transport. At the moment, coal has to be moved several miles by tortuous roads to where it can be loaded on to a goods train. Mr Lewis is dreaming of an aerial ropeway to shift it directly over the hill, but money to construct it has run out.

One cause for hope is the rehabilitation, being undertaken by the Chinese, of a rail link to Port Harcourt. But the port itself suffers from a lack of berthing space – at present, it can only handle consignments of 10,000 tonnes, although there are plans for a deep water harbour that could handle 40,000 tonnes. If Nigeria wants to attract regular customers, it will need to ensure consistency of supply.

Mr Lewis and Mr Speed are left waging a personal crusade against forces that show little evidence of understanding what they are throwing away. The tragedy is that they have seen this before, when the South Wales coal industry collapsed for what Mr Lewis describes as political reasons.

However, the two are sanguine about their position. "Back home we would never have a house like this, with a tennis court," says Mr Lewis. "The weather is good – you can't sniff at that," agrees Mr Speed.



As things stand, Okpara mine looks like the 1950s photo in a 'then and now' feature — Mark Turner

NEWS DIGEST

BOLIVIA

Apex Silver seeks $300m funding for San Cristobal

Apex Silver Mines is preparing to raise $300m for the development of its San Cristobal project in Bolivia, billed as "possibly the most important silver deposit in a generation". Production is due to start in 2002.

The company, which is backed by international financier George Soros, announced yesterday that it had appointed Barclays Capital and Deutsche Bank as lead arrangers to raise the money, a substantial amount by the standards of mining projects generally, and a very large amount in relation to a brand new mine in Bolivia.

Gerard Holden, a director of Barclays Capital, said yesterday that, once the feasibility study was completed – probably by the end of April – it would be tapping all available sources of finance, and hoped to finish the fund-raising by October.

General Hugo Banzer Suarez, Bolivia's president, is said to be strongly in favour of the San Cristobal development, which dwarfs all other individual mining projects in the country. The next presidential elections are scheduled for 2002, the year in which San Cristobal's silver is expected to start flowing.

Apex Silver Mines shares rose $1⅛ to $7.875 after the announcement, compared with a peak of $13.75 last year.

Gillian O'Connor

COPPER AND COBALT

Kolwezi tailings deal reached

Anglo American, the South African conglomerate, and the Texas-based America Mineral Fields have reached a preliminary agreement with the government of the Democratic Republic of Congo to exploit the country's Kolwezi copper and cobalt mine tailings, in a deal worth $130m, AMF has announced.

Under the agreement, an Anglo-AMF joint venture, called Congo Mineral Developments, will have a 60 per cent stake in a new holding company called KMT, with the state-owned Gecamines holding the rest.

However, the agreement depends on ratification of the project by a presidential decree from President Laurent Kabila, who is engaged in a war against rebels supported by Uganda and Rwanda, and on South African Reserve Bank approval for the transfer of funds from South Africa.

Of the $130m to be paid to Gecamines, $25m is an initial payment to be made once the project's assets have been transferred to KMT; three $10m payments will be made every second month thereafter; a further $40m will be paid on completion of a bankable feasibility study and on receipt of project financing; and a final $35m will be paid when the first metal is produced.

The Anglo-AMF joint venture was formed as a solution to a $3bn lawsuit brought by AMF against Anglo American in the US over the two companies' rival efforts to win contracts in the Democratic Republic of Congo.

Anglo American is to fund the first $75m of the joint venture's payments, with AMF repaying its share from project revenues and future equity financings.

Victor Mallet, Johannesburg

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1204-5	1212-3
Previous	1207-08	1213-14
High/low		1224/1209
AM Official	1207-5	1214-15
Kerb close		1210-11
Open int.	272,080	
Total daily turnover	79,633	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1020-25	1045-50
Previous	1022-27	1047-50
High/low		1052/1048
AM Official	1021-22	1047-48
Kerb close		1045-50
Open int.	7,005	
Total daily turnover	1,601	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	485-6	487-8
Previous	492-3	493-4
High/low		494/486
AM Official	487-8	487.5-88
Kerb close		485-6
Open int.	35,497	
Total daily turnover	7,275	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	4245-55	4310-20
Previous	4230-40	4300-10
High/low		4335/4305
AM Official	4250-55	4325-30
Kerb close		4315-25
Open int.	66,356	
Total daily turnover	13,106	

■ TIN ($ per tonne)

	Cash	3 mths
Close	5160-70	5140-45
Previous	5190-200	5160-65
High/low		5190/5125
AM Official	5175-80	5150-55
Kerb close		5125-30
Open int.	20,713	
Total daily turnover	4,844	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	949-50	967-8
Previous	959-60	976.5-7
High/low		985/965
AM Official	947-48	965-66
Kerb close		965-6
Open int.	93,763	
Total daily turnover	27,166	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	1412.5-3.5	1441-2
Previous	1421-22	1449-50
High/low		1453/1437
AM Official	1411.5-12.0	1440-41
Kerb close		1440-1
Open int.	172,894	
Total daily turnover	40,112	

■ LME AM Official £/$ rate: 1.6549

LME Closing £/$ rate: 1.6550

Spot: 1.6485 3 mths: 1.6455 6 mths: 1.6438 9 mths: 1.6427

■ HIGH GRADE COPPER (COMEX)

PRECIOUS METALS

■ LONDON BULLION MARKET

(Prices supplied by N M Rothschild)

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

■ CRUDE OIL IPE ($/barrel)

■ HEATING OIL NYMEX (42,000 US galls; c/US galls)

■ GAS OIL IPE ($/tonne)

■ NATURAL GAS IPE (1,000 therms; pence per therm)

■ NATURAL GAS NYMEX (10,000 mmbtu; $/mmbtu)

■ UNLEADED GASOLINE NYMEX (42,000 US galls; c/US galls)

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

■ WHEAT CBT (5,000 bu min; cents/60lb bushel)

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

■ BARLEY LIFFE (100 tonnes; £ per tonne)

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

■ SOYABEAN MEAL CBT (100 tons; $/ton)

■ POTATOES LIFFE (20 tonnes; £ per tonne)

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

PULP AND PAPER

■ PULPEX OMLX (US$; 24 air dry tons)

FUTURES DATA

All futures data supplied by CMS.

Nuts and seeds Prices from Kenkko London 3 per mt, Iranian pistachios 28/30 raw (in shell) naturally opened (round); crop 1998 as follows: 28/30 at $2,700, CFR MEP, 20/22 at $3,600 CFR MEP. All prices subject to afloatcin passage; 80 per cent of other RPPC fine. Turkish hazelnuts 13/15 and 11/13, crop 1998 indication $4,250 CFR. Market quiet. Indian cashews crop 1998 CFR from top shippers, W320 at $5,750, W240 at $6,950. Market unstable because of new Indian crop speculation. US almonds standard 5 per cent crop 1998 at $3,600. Actual 1998 crop at 460m lb. Indication for crop 1998 at 3,350 FAS for $1.6 per cent. All FAS.

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

■ COCOA CSCE (10 tonnes; $/tonnes)

■ COCOA (ICCO) (SDR's/tonne)

■ COFFEE LIFFE (5 tonnes; $/tonne)

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

■ COFFEE (ICO) (US cents/pound)

■ WHITE SUGAR LIFFE (50 tonnes; $/tonne)

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

■ COTTON NYCE (50,000lbs; cents/lbs)

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

VOLUME DATA

Open Interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open Interest totals are for all traded months.

INDICES

■ Reuters (Base: 18/9/31 = 100)

■ CRB Futures (Base: 1967 = 100)

■ GSCI Spot (Base: 1970 = 100)

LME WAREHOUSE STOCKS (tonnes)

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

■ LEAN HOGS CME (40,000lbs; cents/lbs)

■ PORK BELLIES CME (40,000lbs; cents/lbs)

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

■ ALUMINIUM (99.7%) LME

■ COPPER (Grade A) LME

■ COFFEE LIFFE

1600	151	111	5	
1650	108	83	13	
1700	70	62	25	

■ COCOA LIFFE

	Mar	May	Mar	May
900	18	45	24	34
925	9	34	40	48
950	4	25	60	64

■ BRENT CRUDE IPE

	Mar	Apr	Mar	Apr
1050	-	-	-	-
1100	15	-	-	-
1150	9	-	-	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)

		+or-
Dubai	$10.61-0.71z	+0.155
Brent Blend (dated)	$10.94-0.98	+0.305
Brent Blend (Mar)	$10.84-0.88	+0.205
W.T.I.	$12.30-2.32x	+0.135

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$119-121	+1
Gas Oil ‡	100-101	+1.5
Heavy Fuel Oil	$61-64	
Naphtha	$92-94	
Jet fuel	$115-118	+3
Diesel	$106-107	+2

■ NATURAL GAS (Pence/therm)

Bacton (Feb)	9.25-9.30	+0.18

Petroleum Argus. Tel. London (0171) 359 8792

■ OTHER

Gold (per troy oz)♣	$283.55	-2.30
Silver (per troy oz)♣	508.00c	-7.00
Platinum (per troy oz.)	$348.50	-19.5
Palladium (per troy oz.)	$330.00	
Copper	71.0c	
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	18.98r	
Tin (New York)	244.5	-2.0
Cattle (live weight)	88.16p	-0.61*
Sheep (live weight)	71.74p	+4.11*
Pigs (live weight)†	47.37p	+4.11*
Lon. day sugar (raw)	$172.70	+0.50
Lon. day sugar (wte)	$226.00	+2.00
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	£109.00	
Wheat (US Dark North)	Unq	
Rubber (Feb)♥	51.25p	
Rubber (Mar)♥	51.75p	
Rubber (KL RSS No1)	273.50m	-4.50
Coconut Oil (Phil)§	762.50	+2.50
Palm Oil (Malay.)§	585.00	
Copra (Phil)§	470.0y	
Soyabeans (US)	152.0y	
Cotton Outlook'A' index	55.30	
Wooltops (64s Super)	315p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. y Sep/Oct. z Mar. ♥ London Physical. § CIF Rotterdam. ♣ Bullion market close. * Change on week. †Based on 1,806 head of pigs sold.

JOTTER PAD

For solutions to today's crossword call 0891 430060. Calls cost 50p a minute.

CROSSWORD

No.9,899 Set by ORENSE

ACROSS

1 Show the way to relax in a tribal dance (5,1,5)
7 One affected by failure to exclude student (3)
9 Jump in profit (5)
10 Rate cut is designed to exclude student (9)
11 Tramps pay for spells of hard work (9)
12 Noise from group starting to grate (5)
13 Beaming at drain arrangement (7)
15 Go round (4)
18 Sight site? (4)
20 Run out of gas (7)
23 Trouble with service dress (5)
24 Young chillied peppers with steak at last (9)
26 Silver tea service that is adaptable (9)
27 Talk round with price (5)
28 Take pity on topless troupe (3)
29 Choose staple food with the Spanish fish (8,3)

DOWN

1 Dismiss following second misjudged effort (8)
2 Do they affect speech when said and done badly? (8)
3 Finds out no student gains by labour (5)
4 Go on strike for assembly (7)
5 Provides backing for topless musicians (7)
6 Look! Fashionable clergy attire (9)
7 Car upended in mainly rapid bust-up (6)
8 Patrol outside perimeter gives security (6)
14 It's extra time after a very quiet final (9)
16 Think how cooks run meat (8)
17 Where the reallocated holding is not substantial (8)
19 Tom's back on floor covering – that's touching (7)
20 Obvious, incomplete, bad impression (7)
21 Demur about one's rejection (6)
22 Start to go off church (6)
25 6 down has offered the ideal openings (5)

Solution 9,898

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

Fidelity Currency Funds Ltd

Jupiter Asset Management (Bermuda) Ltd
PO Box HM1258, Hamilton, Bermuda 001 441 292 2760

Newport Investment Management
20 Reid St, PO Box HM 2369 Hamilton Bermuda
Dealing: 01481 707008

Orion Fund Limited
6 Front St., Hamilton, HM11, Bermuda HM 11441 292 6270
Orion (Susp) Oct 15 $27.86

BERMUDA (REGULATED)(**)

Antares Investment Management Ltd

Bermuda Intl Invest Mgmt Ltd
Anchor Intl Jan 20 $35.3919 36.4914 — 1.32

MFS Meridian Funds

Marshall Wace Asset Management Limited

Masters International Advisors
$395.00

Montgomery Emerging Markets Fund Ltd
NAV Oct 16 $759.10

Morgan Stanley Ofis Advisory Mortgage Fd Inc
Class A Shares $10.19

National Investment Trust Company Ltd
The New Taipei Fund Ltd $16.6575

North Atlantic Management Co Ltd
Compass $17.27 17.77

Olympus Capital Management Ltd

Omega Overseas Partners Ltd
$251 718

Opportunity Fund (z)

Orion Capital Advisors Ltd

The Osprey Group Of Funds
Centaur Fund Ltd $10 1374

Pacific & General Investments Inc
NAV $1.3838

Pakistan Fund

Paulson International Ltd
NAV Dec 31 $127.99

Perry Partners International Inc
NAV Nov 30 $203.16

Philippine Income Fund Inc
NAV Jan 20 $8.94

Pro Value AG
European Focus Jan 8 DM264.898

Prospector Fund Management Ltd
Prospector Fund Ltd NAV Sep 30 $113.70

Prudential Securities Futures Mgmt, Inc

Putnam Offshore Funds

CAYMAN ISLANDS (REGULATED)(**)

GUERNSEY (REGULATED)(**)

GUERNSEY (FSA RECOGNISED)

IRELAND (FSA RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (FSA RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (FSA RECOGNISED)

Offshore Funds and Insurances

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Barclays International Funds

JERSEY (REGULATED)(**)

LUXEMBOURG (FSA RECOGNISED)

LUXEMBOURG (REGULATED)(**)

OFFSHORE INSURANCES

هكذا من الاصل

هكذا من الأصل

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BREWERIES, PUBS & REST

BUILDING MATS. & MERCHANTS

CHEMICALS

CONSTRUCTION

CONSTRUCTION - Continued

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Continued

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

FOOD PRODUCERS

FOOD PRODUCERS - Continued

GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Continued

HOUSEHOLD GOODS & TEXT

INSURANCE

INSURANCE - Continued

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Continued

INV TRUSTS SPLIT CAPITAL

هكذا من الاصل

LONDON SHARE SERVICE

OTHER INVESTMENT TRUSTS

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LIFE ASSURANCE

MEDIA

MEDIA - Continued

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PROPERTY

PROPERTY - Continued

RETAILERS, FOOD

RETAILERS, GENERAL

SUPPORT SERVICES

SUPPORT SERVICES - Continued

TELECOMMUNICATIONS

TOBACCO

TRANSPORT

TRANSPORT - Continued

WATER

AMERICANS

CANADIANS

SOUTH AFRICANS

TRADED INDEX SECURITIES

AIM

Alternative Investment Market

AIM - Continued

GUIDE TO LONDON SHARE SERVICE

Prices and trading volumes for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share indices.

Closing mid-prices are shown in pence unless otherwise stated. For FTSE 100 index constituents and reserves contained in the Trading Volume table on the LSE page, last trade prices at or prior to 4.30pm market close are shown, as these stocks are now traded on the Stock Exchange Electronic Trading System ("SETS"). Highs and lows are based on intra-day mid-prices/last trades over a rolling 52 week period.

Trading Volumes are end of day accumulated totals. Dashes indicate that either no trade has taken place during the day or the data is not available for those particular securities. Volumes shown for foreign securities are based on London trading.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column only as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent (except where payment is due after 6/4/99 when no tax credit will be applied) and allow for the value of declared distribution and rights.

Estimated Net Asset Values (NAV) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

* Highs and lows marked thus have been adjusted to allow for capital changes

† Interim since increased or resumed

‡ Interim since reduced, passed or deferred

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FT Cityline

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For Retail Price Index details call 0891 43 0805

The FT web site

London share prices are available throughout the trading day with a 20 minute delay from our web site, http://www.ft.com, which also has the closing share prices printed on these pages.

LONDON STOCK EXCHANGE

Footsie stumbles after early assault on 6,000

MARKET REPORT

By Steve Thompson, UK Stock Market Editor

It was boom and bust for the UK's leading stocks yesterday.

Prompted by Wall Street's overnight burst of strength, which saw the Dow Jones Industrial Average up 121 points, the FTSE 100, London's benchmark index, quickly raced up more than 100 points and surged to within 11 points of the 6,000 level.

The market's early euphoria did not last long, however, with bouts of profit-taking and a revival of concerns about the potential for further economic and financial upheavals in South America and elsewhere unnerving investors.

It took a decent opening by the US market yesterday – the Dow was up more than 40 points within the first 10 minutes of trading – to bring some stability to a London market looking extremely nervous in the early afternoon.

But, as with London, that positive US opening did not last long, the Dow sliding back into the red and languishing 30 points off as the UK market closed.

As the curtain descended in London the FTSE 100 index was a net 9.3 off at 5,876.4, in stark contrast to its earlier position when the index hit a session-high of 5,989.5. At its worst, when Wall Street embarked on its downturn, the FTSE 100 showed a 26.2 slide at 5,859.5.

The trigger for the sharp reversal in the Footsie's fortunes was some determined selling of a number of the banks, telecoms and oils, all of which are heavily weighted in the index.

Some technical analysts advised caution. Richard Lake at Brewin Dolphin, the stockbroker, said: "It is amazing how quickly sentiment can change in equity markets. There is some loss of upward momentum and caution is required. The index might be consolidating above its rising 50-day moving average but a move below 5,800 will turn me bearish."

The inconsistency of the leading stocks did not spill over into the rest of the market where the mid and small-cap stocks extended their recent good performances.

Far from retreating in tandem with the FTSE 100 the 250 index ended the day only a fraction off its best, settling 46.5 to the good at 4,903.3.

Similarly, the FTSE SmallCap shrugged off the woes affecting the leaders, to end the day at a session-high of 2,102.8, up 7.8.

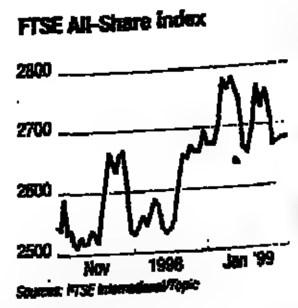
Those strong gains outside of the top 100 stocks reflected the continuing takeover speculation, which is particularly evident among the engineering stocks.

Share prices of many of these companies have been hit by the impact of strong sterling and the turbulence that has swept across Asia, Russia and South America, leaving them open to what some analysts view as opportunistic bids.

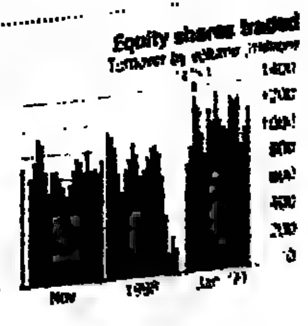
Marketmakers insisted that the takeover moves against LucasVarity and Adwest Automotive were only the start of what is expected to be a rush of bids in that area.

Turnover picked up strongly and pushed through the 1bn barrier for the 11th time in the past 12 sessions, eventually reaching 1.2bn shares. Shell accounted for over 4 per cent of the total.

FTSE All-Share Index



Equity shares traded



Source: FTSE International/Reuters

Indices and ratios

FTSE 100	5876.4	-9.3
FTSE 250	4903.3	+46.5
FTSE 350	2774.1	+0.2
FTSE All-Share	2677.42	-0.76
FTSE All-Share yield	2.92	2.92

Best performing sectors

1	Chemicals	+3.3
2	Retailers General	+2.6
3	Engineering	+2.5
4	Paper, Pckg & Printing	+2.2
5	Extractive Industries	+2.1

Worst performing sectors

1	[illegible]	[illegible]
2	[illegible]	[illegible]
3	[illegible]	[illegible]
4	[illegible]	[illegible]
5	[illegible]	[illegible]

Reed up on talk of new chief

COMPANIES REPORT

By Peter John and Martin Brice

Reed International shot towards the top of the Footsie outperformance table as talk increased that it was poised to announce a change at the top.

Nigel Stapleton and Herman Bruggink, the publishing group's co-chairmen, said last year that they would not be heading Reed after the millennium.

Dealers have suggested that a new appointment is imminent and the speculation centres on Simon & Schuster, the US group that recently sold its educational and specialist publishing arm to Pearson.

Reed said it was unable to comment on the rumour but the impact, combined with broker comment that Reed is *the UK's most under-valued internet stock*, sent the shares up 41½ to 541½p.

Pearson, the media group that owns the Financial Times, hit a new high yesterday as Lehman Brothers initiated coverage with a £15 share price target. However, profit-taking took the stock back to close 10 lower at £13.81.

ICI jumped 45½ to 549½p with encouragement from the US market's response to the full-year figures from rival DuPont.

DuPont's said the full-year earnings were "disappointing" but the shares were stronger and there was a feeling that much of the bad news was already in the price. ICI reports next week and there was also some delayed response to the UK group's sale of its 50 per cent shareholding in Japanese-based Asahi-ICI Fluoropolymers to Asahi Glass, its joint venture partner.

Zeneca slipped 48 to £28.24. ABN Amro issued a a negative note saying the shares were 20 per cent too expensive. The broker argued that, assuming the merger with Sweden's Astra goes through without a counter bidder emerging, the stock was worth no more than £23.

Analyst Mark Brewer pointed out that the valuation was held back by the prospect of zero sales growth over the next few years.

BTP, the speciality chemicals group, jumped 32 to 357½p after it was featured in a "buy" note from BT Alex Brown.

The broker raised its recommendation on BTP and also on Laporte from "market perform" to "buy". The broker reiterated its "buy" stance on BOC, to which it is house broker. Laporte rose 11 to 512½p and BOC was steady at 333p.

Coats Viyella rose almost 20 per cent or 5¾ to 35¼p, with traders saying investors were hoping the 19 per cent stake held in the textiles group by fund management group Phillips & Drew would soon result in corporate action. P&D has encouraged mergers and acquisitions activity in companies where it has large holdings as it seeks outperformance.

One company where P&D had a large holding – 10 per cent – is Primesight, the airports billboard space buyer. It said it was in talks and the shares gained 24 to 283p.

CGU shrugged off what *some analysts said were slightly disappointing* new business figures to close 29¼ up at 876½p.

Abbey National took a tumble as the market re-examined the bank's exposure to the mortgage market.

News on Tuesday that the bank's market capitalisation had overtaken that of Halifax focused attention on the company's premium rating to the mortgage lenders' sub-sector. Analysts said Abbey had outperformed the market by 25 per cent in the last quarter and £13 was seen as a ceiling.

In addition, Northern Rock produced results that were at the lower end of the range of analysts' forecasts.

As a result Abbey tumbled 66 to £12.55 while Halifax, which is preferred by Warburg Dillon Read, was steady at 754½p. Northern Rock fell 30½ to 497½p.

St James's Place Capital consolidated its 10 per cent gain since the start of the year with a further rise of 1¼ to 320p. There is a feeling that the insurer, which owns J. Rothschild Assurance, might be about to dispose of two trade investments.

Dealers said this would pave the way for a aggressive move against St James's Place by Prudential, which already has a 26 per cent stake.

Telecoms rise

Telecoms stocks again rose, in response to the $300m move by Microsoft on United Pan-European Communications, the cable TV to telephone group. Colt rose 46 to £12.75 and Vodafone 23 to 183½p.

High street retailers Kingfisher and Dixons came in for sustained support, the former lifted 42 to 628p by good results from Castorama, its French subsidiary. Dixons settled 53 higher at £10.29, still boosted by its internet success.

The closing of the mandatory cash offer for Dragon Oil, with 69 per cent acceptances and the consequent removal of the threat to its listing, saw the shares rise sharply.

Smaller investors were said to be active buyers yesterday as the stock gained 11¾ to 29p, while the warrants tripled in value, rising 3¾ to 5p.

Hazlewood Foods bought a further 50,000 of its shares at 113p each, bringing to 200,000 the total bought under the authority to purchase 11m. The shares rose 7¼ to 116½p.

Booker rose 7 to 53p on a revival of bid speculation, although asset sales were seen by some as a more plausible explanation for the share price rise.

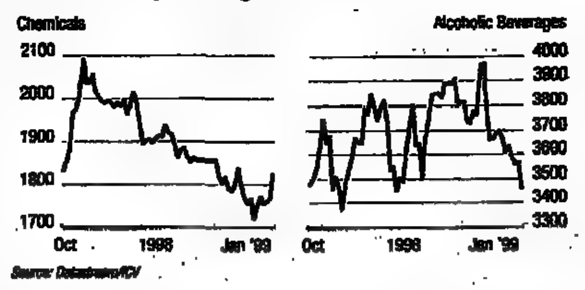
Motor trader Ryland Group gained 3¼ to 80p as it said it was behind the approach to Wyndham Motor, up 5 at 181p. Le Riche, the Channel Islands retailer, said the fall in used-car resale values led to reduced profits in its motor division, and that it expected further significant losses. The stock was down 85 to 410p.

CCI Holdings, the clay pigeon-maker, was suspended at 125p as it announced its transformation into a software group with two acquisitions. Its bid for Aim-traded computer services group Xavier Computer saw the shares firmer at 14¾p, and it was also buying KSE, the private software provider.

Reflec, the reflective inks technology group, is known to be talking about contracts and other forms of co-operation with the US company with which it recently settled a patent dispute.

The dispute and the prospect of US litigation has overshadowed the group's shares, which 18 months ago reached 107p. Yesterday they were flat at 4p.

Best and worst performing FTSE sectors



Source: Datastream/ICV

FT 30 INDEX

	Jan 27	Jan 26	Jan 25	Jan 22	Jan 21	Yr ago	*High	*Low
FT 30	3498.4	3483.6	3448.7	3423.9	3492.2	3331	4004.9	2790.6
Ord. div. yield	2.96	2.96	2.98	2.99	2.93	3.29	4.22	2.72
P/E ratio net	22.68	22.84	22.53	22.40	22.91	21.57	25.41	15.80
P/E ratio nil	22.58	22.55	22.43	22.31	22.82	21.38	25.18	15.71

FT 30 since compilation: high 4004.9 7/10/98; low 49.4 6/26/40 Base Date: 1/7/35.

FT 30 hourly changes

9	10	11	12	13	14	15	16	High	Low
3493.8	3510.0	3512.2	3500.1	3502.1	3505.4	3499.6	3496.5	3539.7	3493.6

STOCK MARKET TRADING DATA

	Jan 27	Jan 26	Jan 25	Jan 22	Jan 21	Yr ago
SEAQ bargains	66,429	66,292	66,851	71,841	80,028	69,589
Equity turnover (£m)†	-	4526.3	3640.4	5079.3	4871.5	2573.2
Equity bargains†	-	57,801	57,021	63,728	66,244	65,818
Shares traded (mI)†	-	1152.4	909.1	1168.4	1100.1	692.2
Total market bargains‡	-	66,169	66,882	75,428	78,950	-
Total turnover (£m)‡	-	5500.7	4546.8	6011.1	6086.0	-
Total shrs traded (mI)‡	1205.3*	1370.6	1103.5	1420.8	1329.6	-
Tradepoint turnover (£m)	38.4	45.7	23.7	38.0	60.0	39.5
Tradepoint shrs traded(m)	17.7	17.2	9.2	15.9	28.8	12.7

†Excluding intra-market and overseas turnover but including Crest turnover. *UK only total at 6pm. ‡ UK plus intra-market turnover.

■ London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	938	Total Highs	41	Total contracts	23,165
Total Falls	532	Total Lows	71	Calls	10,513
Same	1,405			Puts	12,652

Jan 27 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FTSE 100 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	5975.0	5883.0	-7.0	6010.0	5866.0	[illegible]	[illegible]
Jun	5940.0	5921.5	-7.0	5940.0	5940.0	[illegible]	[illegible]
Sep		5964.5	-7.0				

■ FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar		4892.0	+36.0				
Jun		4929.0	+36.0				

■ FTSE 100 INDEX OPTION (LIFFE) (*5876) £10 per full index point

[illegible]

■ EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

[illegible]

LONDON RECENT ISSUES: EQUITIES

[illegible]

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

FTSE GOLD MINES INDEX

	Jan 27	% chg on day	Jan 26	Year ago	Gross div yield %	p/e ratio	52 week High	Low
Gold Mines Index (26)	946.08	-3.4	884.27	1111.85	1.89	946.32	1391.57	791.58
■ Regional indices								
Africa (8)	1060.83	-0.4	1054.85	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Australasia (9)	1173.78	-0.2	1176.35	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Americas (11)	886.59	-3.9	922.21	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Figures in brackets show number of companies. Basis US Dollars. Base Values 1000.00 31/12/92. † Partial. Latest prices were unavailable for this edition.

FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

[illegible]

■ FTSE Actuaries Industry Sectors

[illegible]

■ Hourly movements

	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FTSE 100	5947.6	5930.5	5913.8	5891.8	5899.2	5903.4	5893.5	5880.1	5989.5	5859.5
FTSE 250	4866.6	4879.8	4887.5	4883.3	4886.9	4890.4	4901.3	4902.8	4903.5	4865.6
FTSE 350	2799.5	2793.7	2787.7	2779.4	2781.1	2784.6	2780.7	2767.5	2816.1	2767.3
FTSE SmallCap	2099.03	2096.28	2100.62	2100.51	2101.88	2101.45	2101.90	2102.18	2102.85	2096.30
FTSE All-Share	2700.50	2695.28	2689.77	2682.14	2683.77	[illegible]	[illegible]	2683.46	2711.34	2671.14

[illegible]

FTSE INTERNATIONAL

TRADING VOLUME

■ Major Stocks yesterday

[illegible]

مكرر من الأصل

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE (EMU) Prices in €

AUSTRIA (Jan 27 / 1 € = 13.7603 Sch)

[illegible]

BELGIUM/LUX (Jan 27) 1 € = 40.3399 Frs.

[illegible]

FINLAND (Jan 27) 1 € = 5.94573 Mka

[illegible]

FRANCE (Jan 27) 1 € = 6.55957 Frs.

[illegible]

GERMANY (Jan 27) 1 € = 1.95583 Dm.

[illegible]

IRELAND (Jan 27) 1 € = 0.78756 Punt

[illegible]

ITALY (Jan 27) 1 € = 1936.27 Lire

[illegible]

NETHERLANDS (Jan 27) 1 € = 2.20371 Fl.

[illegible]

PORTUGAL (Jan 27) 1 € = 200.482 Esc.

[illegible]

SPAIN (Jan 27) 1 € = 166.386 Pts.

[illegible]

EUROPE (NON-EMU)

CZECH REP (Jan 27 / Korona)

[illegible]

DENMARK (Jan 27 / Kr)

[illegible]

GREECE (Jan 27 / Drachma)

[illegible]

NORWAY (Jan 27 / Kroner)

[illegible]

POLAND (Jan 27 / Zloty)

[illegible]

SWEDEN (Jan 27 / Kronor)

[illegible]

SWITZERLAND (Jan 27 / Frs.)

[illegible]

TURKEY (Jan 27 / Tk Lira)

[illegible]

PACIFIC

JAPAN (Jan 27 / Yen)

[illegible]

HONG KONG (Jan 27 / H.K.$)

[illegible]

INDONESIA (Jan 27 / Rupiah)

[illegible]

MALAYSIA (Jan 27 / MYR)

[illegible]

NEW ZEALAND (Jan 27 / NZ $)

[illegible]

SINGAPORE (Jan 27 / S$)

[illegible]

AUSTRALIA (Jan 27 / Aust$)

[illegible]

SOUTH KOREA (Jan 27 / Won)

[illegible]

TAIWAN (Jan 27 / TW $)

[illegible]

THAILAND (Jan 27 / Baht)

[illegible]

AFRICA

SOUTH AFRICA (Jan 27 / Rand)

[illegible]

AMERICAS

CANADA

TORONTO (Jan 27 / Can $) 4 pm close

[illegible]

MONTREAL (Jan 27 / Can $) 4 pm close

[illegible]

MEXICO (Jan 27 / Peso) 12.30 pm

[illegible]

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	TUESDAY JANUARY 26 1999 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	Euro Index	Local Currency Index	Local % chg on day	Gross Div. Yield	MONDAY JANUARY 25 1999 US Dollar Index	Pound Sterling Index	Yen Index	Euro Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (76)	205.29	−0.2	183.41	148.11	204.25	216.61	0.0	3.39	205.75	184.06	148.18	204.91	216.61	219.96	163.88	205.06
Austria (21)	171.08	3.3	152.84	123.43	150.19	150.19	3.2	2.32	165.58	148.13	119.25	145.52	145.52	253.73	165.27	194.88
Belgium (22)	406.51	0.3	363.18	293.28	349.41	349.41	0.2	1.93	405.35	362.62	291.98	348.77	348.77	446.95	265.09	265.39
Brazil (32)	93.09	−0.5	83.17	67.16	92.62	324.72	8.0	2.78	93.54	83.68	67.37	93.16	306.48	269.34	89.32	218.74
Canada (116)	209.01	0.8	186.73	150.79	207.95	229.90	1.0	1.71	207.42	185.55	149.38	206.57	227.65	248.78	159.94	206.36
Denmark (34)	492.04	−0.1	439.59	354.99	489.54	429.97	−0.2	1.63	492.29	440.39	354.54	490.29	430.78	537.33	420.12	461.13
Finland (29)	624.61	0.0	558.03	450.63	673.39	673.39	−0.1	1.49	624.77	558.91	449.96	674.27	674.27	661.25	291.57	291.57
France (75)	328.55	0.5	293.53	237.04	292.09	292.09	0.4	2.15	327.00	292.53	235.50	291.01	291.01	354.45	240.15	240.15
Germany (55)	274.43	0.2	245.18	197.99	241.09	241.09	0.1	1.34	273.75	244.89	197.15	240.74	240.74	325.61	226.35	229.74
Greece (36)	387.49	4.0	346.19	279.56	385.52	772.20	3.9	1.10	372.48	333.22	268.25	370.97	742.99	388.53	211.47	–
Hong Kong, China (67)	283.74	0.3	253.50	204.71	282.30	282.30	0.3	4.34	282.75	252.95	203.64	281.60	281.32	362.56	196.64	291.12
Indonesia (26)	43.64	6.8	38.99	31.48	43.42	244.95	4.9	1.25	40.88	36.57	29.44	40.71	233.52	64.52	19.04	31.54
Ireland (16)	571.98	−0.5	511.01	412.66	548.41	548.41	−0.6	1.78	574.81	514.22	413.98	551.70	551.70	605.85	396.15	419.96
Italy (53)	169.62	0.7	151.54	122.37	211.92	211.92	0.6	1.31	168.51	150.75	121.36	210.78	210.76	192.64	126.91	126.91
Japan (445)	101.33	0.9	90.52	73.10	100.81	73.10	1.1	1.02	100.43	89.84	72.33	100.02	72.33	109.73	76.83	107.02
Mexico (29)	1057.10	1.2	944.42	762.66	1051.72	11810.94	1.3	2.17	1044.01	933.96	751.89	1039.77	11654.32	1733.73	787.15	1546.02
Netherlands (26)	501.65	0.1	448.17	361.92	435.94	435.94	0.0	2.17	501.10	448.28	360.89	435.92	435.92	562.73	394.92	411.95
New Zealand (18)	64.23	0.7	57.39	46.34	63.91	63.74	0.7	4.58	63.77	57.05	45.93	63.51	63.31	77.84	45.68	75.42
Norway (37)	232.34	0.1	207.57	167.62	231.16	234.64	0.0	2.45	232.12	207.65	167.17	231.18	234.74	357.71	181.86	294.84
Philippines (22)	87 31	2.4	78.00	62.99	86.87	167.30	1.6	0.88	85.24	76.25	61.39	84.89	164.61	106.98	42.48	69.67
Portugal (18)	270.68	0.6	241.82	195.28	320.91	320.91	0.5	1.02	268.99	240.63	193.72	319.24	319.24	299.39	194.13	–
Singapore (41)	208.65	1.2	186.40	150.53	207.58	161.87	0.9	1.75	206.25	184.51	148.54	205.42	160.39	248.74	102.45	171.10
South Africa (38)	184.51	−0.1	164.84	133.12	183.57	243.58	−0.1	3.79	184.62	165.16	132.96	183.87	243.83	346.20	151.55	257.53
Spain (30)	386.21	−0.5	345.04	278.63	420.61	420.61	−0.7	1.92	388.31	347.38	279.66	423.34	423.34	435.19	290.81	295.41
Sweden (44)	522.85	0.1	467.12	377.22	520.19	596.61	−0.2	1.91	522.47	467.40	376.28	520.36	597.93	628.19	379.18	473.18
Switzerland (30)	407.80	−0.2	364.33	294.21	405.73	350.49	0.0	1.22	408.81	365.71	294.42	407.15	350.39	441.85	307.73	349.31
Thailand (34)	24 12	1.5	21.55	17.40	23.99	34.35	0.9	2.76	23.75	21.25	17.11	23.66	34.03	33.84	8.15	20.80
United Kingdom (207)	377.86	0.2	337.58	272.61	375.93	337.58	0.1	2.92	376.96	337.22	271.48	375.43	337.22	401.84	307.96	339.63
USA (615)	516.68	1.5	461.60	372.76	514.05	516.68	1.5	1.27	508.98	455.33	366.56	506.91	508.98	525.31	390.12	390.15
Americas (792)	458.09	1.5	409.25	330.49	455.75	389.08	1.5	1.29	451.41	403.82	325.10	449.58	383.30	468.35	347.59	353.58
Europe (733)	357.00	0.2	318.95	257.56	355.19	324.69	0.1	2.09	356.19	318.64	256.53	354.75	324.22	386.24	282.63	295.49
Euroblec (345)	103.68	0.3	92.63	74.80	98.58	98.58	0.2	1.75	103.40	92.50	74.47	98.42	98.42	113.92	81.53	–
Nordic (144)	508.72	0.0	454.49	367.02	506.12	502.29	−0.2	1.79	508.58	454.97	366.28	506.52	503.19	555.97	380.04	415.97
Pacific Basin (729)	108.34	0.8	96.80	78.17	107.79	81.31	0.9	1.54	107.52	96.18	77.43	107.08	80.57	119.48	82.88	113.18
Euro-Pacific (1462)	211.69	0.4	189.12	152.72	210.61	172.72	0.4	1.93	210.88	188.65	151.87	210.02	172.08	221.79	166.00	189.24
North America (731)	495.69	1.5	443.03	357.76	493.35	495.92	1.5	1.28	488.63	437.12	351.91	486.64	489.61	504.30	374.92	378.40
Europe Ex. UK (526)	334.28	0.2	298.65	241.17	332.58	308.52	0.2	1.68	333.54	298.38	240.21	332.18	308.02	356.32	260.93	265.18
Europe Ex. Euroblec (388)	97.04	0.2	86.70	70.01	96.55	95.73	0.1	2.44	96.87	86.66	69.76	96.48	95.62	103.93	77.40	–
Europe Ex. UK Ex. Euroblec (181)	98.66	0.1	88.16	71.19	98.18	93.89	0.1	1.44	98.63	88.23	71.03	98.23	93.76	109.21	75.16	–
Pacific Ex. Japan (284)	178.24	0.3	159.24	128.59	177.39	182.31	0.3	3.60	177.74	159.00	128.00	177.01	181.73	216.04	128.26	178.23
World Ex. Euroblec (1947)	106.07	1.1	106.49	90.99	105.53	104.34	1.2	1.54	104.89	105.44	89.82	104.46	103.15	108.05	83.09	–
World Ex. US (1677)	210.69	0.4	189.22	151.99	209.60	177.68	0.4	1.94	209.84	187.72	151.13	208.99	176.94	221.91	165.95	191.99
World Ex. UK (2085)	302.68	1.1	270.42	219.37	301.14	269.42	1.1	1.43	299.45	267.89	215.67	298.24	266.48	311.48	236.11	247.80
World Ex. Japan (1847)	412.63	1.0	368.64	297.70	410.53	401.78	1.0	1.64	408.55	365.47	294.22	406.88	397.83	427.99	320.58	330.31
The World Index (2292)	309.19	1.0	276.33	223.07	307.62	275.80	1.0	1.59	306.15	273.88	220.49	304.91	273.06	318.51	242.36	255.57

Market closed 26/1/99: Australia. CONSTITUENT CHANGE WITH EFFECT 27/1/99: Marley (UK) replaces: Spring Ctrl.

Emerging markets: IFC investable indices

Dollar terms

Jan 26 Market		Day's chg %	% Chg since 31/12/98
Latin America			
Argentina	704.25	+0.3	−11.7
Brazil	193.69	−0.1	−29.6
Chile	437.84	+1.2	−3.0
Colombia[1]	371.35	−2.6	−15.5
Mexico	448.77	+1.4	−6.8
Peru[2]	128.42	−0.7	−4.4
Venezuela[3]	375.30	+2.2	−17.2
East Asia			
China[4]	22.38	+0.6	−14.5
India[7]	69.39		+8.1
Indonesia[5]	20.86	+7.8	−19.8
Korea[3]	49.69	−1.6	−8.3
Malaysia	95.96	−0.2	+8.4
Pakistan[8]	86.91	−2.1	−8.1
Philippines	119.12	+2.2	−3.2
Sri Lanka[10]	77.48	−2.0	−5.9
Taiwan, China[6]	114.06	+2.1	−1.6
Thailand	84.48	+1.4	+2.0
Europe			
Czech Rep	49.57	−1.5	−2.3
Greece	690.13	+4.1	+11.4
Hungary[11]	290.29	−1.4	+3.4
Poland[12]	555.18	+5.5	+6.0
Portugal	308.76	+0.5	+5.7
Russia	22.50	−0.2	−4.1
Slovakia	44.08	+1.4	+1.1
Turkey[14]	133.23	+1.1	−8.9
Mideast/Africa			
Egypt	74.40	−0.7	+15.4
Israel	102.14	−0.4	−0.1
Jordan	231.76	−1.1	+7.0
Morocco	176.28	+0.5	+5.2
S Africa[15]	126.21	+0.3	+0.8
Zimbabwe[16]	104.12	+1.4	−1.2
Regions			
Composite	177.78	+0.9	−4.8
Latin America	359.12	+0.6	−14.4
Asia	102.45	+0.7	−4.3
EMEA	118.15	+1.1	+3.4
Europe	156.88	+2.0	+4.8
Eastn Europe	59.39	+0.9	+2.2
ME & Africa	54.59	+0.1	+1.8
Comp + Malay	182.12	+0.8	−3.9
Asia + Malay	106.27	+0.5	−1.7

Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1990; (4)Dec 31 1992; (5)Jan 3 1992; (6)Jan 4 1991; (7)Nov 6 1992; (8)Sep 28 1990; (9)Mar 1 1991; (10)Dec 31 1992; (11)Dec 31 1992; (12)Dec 31 1992; (13)Dec 31 1992; (14)Dec 31 1992; (15)Aug 2 1993; (16) July 2 1993. Latest values were unavailable for this edition.

4 pm close January 27

NEW YORK STOCK EXCHANGE PRICES

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IN.SECTS (Pan European Sector Indices from EuroBench®)

The IN.SECTS - pan European equity sector indices from EuroBench® - contain only those liquid stocks that show strong sectoral behaviour in their price-movements. Therefore, the indices really represent the core sector trend. Using the correlation of each constituent with the sector trend to weight the constituents, an even weighting is achieved ensuring maximal diversification while offering the best sector tracking available. (Values preceded with IK = indicative).

Sector			SETT	Close	Previous	Change on day	% Change	52 WKS HIGH	52 WKS LOW
			27-01-1999		26-01-1999				
Bks	(Banks EUR)	EUR	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
BksS	(Banks USD)	USD	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Rpcs	(Computer parts EUR)	EUR	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
RpcsS	(Computer parts USD)	USD	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Oil	(Oils EUR)	EUR	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
OilS	(Oils USD)	USD	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Phrma	(Pharmaceuticals EUR)	EUR	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
PhrmaS	(Pharmaceuticals USD)	USD	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Telco	(Telecoms EUR)	EUR	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
TelcoS	(Telecoms USD)	USD	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

EuroBench is an independent index provider based in Brussels. Full information on the IN.SECTS and EuroBench is available on WWW.EURO-INSECTS.COM and WWW.EUROBENCH.COM. A free daily Email service can be subscribed to. For hard copy information and professional and private investor brochures call + 32 2 509 9480 or fax + 32 2 509 1389

Price data supplied by [illegible]

Yearly highs and lows for NYSE [illegible] the [illegible] Jan 1 1998. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Volume figures are unofficial.

d-new yearly low. P/E price-earnings ratio [illegible] high. [illegible] ex-dividend or ex-rights [illegible]
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GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Jan 26	Jan 25	Jan 22	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
Industrials	9324.58	9203.32	9120.67	9643.32 (8/1/99)	7539.07 (31/8/98)	9643.32 (8/1/99)	41.22 (8/7/32)
Home Bonds	106.48	106.42	106.49	107.17 (9/12/98)	104.42 (11/5/98)	107.17 (9/12/98)	54.99 (1/10/81)
Transport	3139.44	3112.97	3083.80	3686.02 (15/4/98)	2345.00 (9/10/98)	3686.02 (16/4/98)	13.23 (8/7/32)
Utilities	308.01	308.61	308.73	320.51 (8/10/98)	262.68 (9/1/98)	320.51 (8/10/98)	16.53 (8/7/32)

DJ Ind. Day's high 9408.77 (9273.08) Low 9118.35 (9094.25) (Theoretical)
Day's high 9320.99 (9203.83) Low 9168.45 (9063.26) (Actual)

Standard and Poors	Jan 26	Jan 25	Jan 22	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
Composite‡	1252.31	1233.98	1225.19	1275.09 (8/1/99)	927.69 (9/1/98)	1275.09 (8/1/99)	4.40 (1/6/32)
Industrials	1515.84	1488.60	1479.02	1538.43 (8/1/99)	1077.40 (8/1/98)	1538.51 (6/1/99)	3.52 (30/6/32)
Financial	130.06	129.98	128.37	147.89 (14/7/98)	95.80 (8/10/98)	147.89 (14/7/98)	7.13 (4/9/74)
Others							
NYSE Comp.	591.45	586.08	583.75	611.08 (8/1/99)	477.20 (8/10/98)	611.08 (8/1/99)	4.64 (25/4/42)
Amex Comp	708.36	706.01	704.69	753.67 (22/4/98)	563.75 (8/10/98)	753.67 (22/4/98)	524.20 (16/7/98)
NASDAQ Cmp	2433.42	2369.31	2338.88	2433.42 (26/1/99)	1419.12 (8/10/98)	2433.42 (26/1/99)	54.87 (3/10/74)
Russell 2000	425.33	422.11	422.44	491.41 (21/4/98)	310.28 (8/10/98)	491.41 (21/4/98)	123.36 (7/12/93)

RATIOS

	Jan 22	Jan 15	Jan 8	Year ago
Dow Jones Ind. Div. Yield	1.67	1.64	1.58	1.79
	Jan 20	Jan 13	Jan 6	Year ago
S & P Ind. Div. yield	1.12	1.14	1.11	1.47
S & P Ind. P/E ratio	38.80	37.95	39.11	26.31

US DATA

MARKET ACTIVITY

Volume (million)	Jan 27	Jan 26	Jan 25
NYSE	893.419	896.440	728.020
Amex	25.046	25.786	22.633
NASDAQ	1036.32	1039.39	877.949

NYSE	Jan 27	Jan 26	Jan 25
Issues Traded	3,533	3,553	3,541
Rises	1,052	1,557	1,442
Falls	1,942	1,438	1,527
Unchanged	539	558	572
New Highs	53	44	40
New Lows	76	64	56

NYSE TRADING ACTIVITY

Volume : 893,419,260

ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Day's change
Compaq	35,277,300	48⅝	-2¼
Fst Union	20,054,300	52⅝	-4⅞
AmOnLine	16,848,200	160¾	+7⅛
ServCp	15,806,100	18½	-⅜
Disney	10,673,100	32⅜	-1⅛
LucentTch	8,031,700	112⅞	+2⅞
Citigrp	8,638,100	54⅞	-⅞
WarLam	6,867,700	71⅞	+3⅞
IBM	6,545,100	178¾	-6⅞
AT&T	6,379,000	85⅝	-1

BIGGEST MOVERS

Wednesday	Close price	Day's change	Day's chge %
Ups			
Tupperw	18⅝	+3⅞	+23.9
AveryD	47⅞	+4⅞	+11.3
Imperl Su	18⅝	+1⅜	+8.6
Gaslnc	38⅝	+2⅝	+8.0
Downs			
CooprCo	12⅝	-4⅛	-24.9
Watsco	21⅞	-2⅛	-8.6
FruitLoom	14½	-1⅛	-8.3
Fst Union	52⅝	-4⅞	-8.2

NASDAQ TRADING ACTIVITY

Volume :1,036,324,160

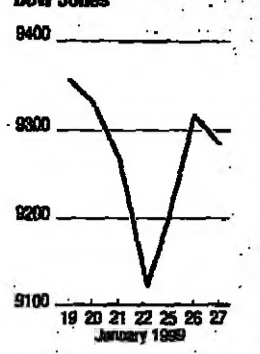
ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Day's change
Micsft	22,892,300	180⅝	-2⅛
DellCmp	21,914,000	88⅛	-⅛
Amz.com	16,865,300	124⅞	+9⅝
CiscoSys	14,871,500	109⅝	-3⅜
Intel	13,518,000	132⅝	-4⅛
MCIWcm	13,203,300	77⅝	-⅛
AgroPh	10,852,600	58⅝	+2⅛
SunMic	10,838,500	105⅛	-1⅛
Excite	10,512,100	107⅜	+5⅝
Oracle	8,652,200	51⅝	-1⅝

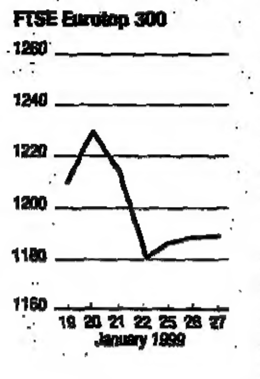
BIGGEST MOVERS

Wednesday	Close price	Day's change	Day's chge %
Ups			
eBay Inc	303⅛	+82⅛	+37.3
AspDev	30⅛	+6⅛	+27.2
PAREXEL	28⅝	+4⅛	+17.2
Coherat	15½	+2⅛	+15.0
Downs			
Taken Gp	10⅝	-3⅜	-23.5
Komag	11⅝	-2⅜	-17.0
3DFX	12⅝	-2⅜	-14.2
Rainbow	28⅝	-5	-12.5

Dow Jones



FTSE Eurotop 300



JAPAN

	Jan 27	Jan 26	Jan 25	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
Nikkei 225	14450.06	14392.01	14208.81	17264.3	12880	38915.8	85.25

Day's high: 14528.21. Day's low: 14370.52.

TOKYO TRADING ACTIVITY

Volume : 416,830,000

ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Day's change
Haseko	21,251,000	53	+13
ShokJt	15,216,000	110	+10
Tohoku	7,222,000	752	+2
SumBnk	6,815,000	1430	+17
MKT/B	6,216,000	128	+3
NEC	5,542,000	1147	-24
Sumitm	5,386,000	127	-3
NpStl	4,916,000	205	-1
YkhmRb	4,818,000	313	+25
HmkR	4,765,000	428	-18

BIGGEST MOVERS

Wednesday	Close price	Day's change	Day's chge %
Ups			
Haseko	53	+13	+32.5
Mytr'n	243	+27	+12.5
ShokJt	110	+10	+10
TkBr d	1339	+111	+9.0
Downs			
Sancom	59	-5	-8
Sheran	2600	-155	-5.6
CrStas	2430	-130	-5.1
MtsOsl	192	-10	-5.0

FRANCE

	Jan 27	Jan 26	Jan 25	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
CAC 40	4098.10	4071.28	4050.80	4388.48	2882.54	4388.48	984.61

Day's high: 4148.70. Day's low: 4066.23.

PARIS TRADING ACTIVITY

Volume : 484,020,810

ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Day's change
FrTele	2,586,420	79.4	-2.1
Usinor	2,145,113	10.7	+0.48
Alcatel	1,525,501	102.1	-0.8
TotalB	1,247,487	87.5	+0.05
STMicro	1,128,580	85.1	+3.7
MichlnB	1,102,285	34.07	+1.22
RhonPA	958,670	41.5	
ElfAqu	873,182	93.15	-2.85
Danone	857,082	229.5	+18.8
Axa	765,023	124	+1.3

BIGGEST MOVERS

Wednesday	Close price	Day's change	Day's chge %
Ups			
Danone	228.5	+18.8	+8.9
ThmCSF	34.85	+2.15	+6.6
PechnyA	29.25	+1.68	+6.1
Eramet	25.5	+1.4	+5.8
Rhodia	11.85	+0.65	+5.8
Downs			
GrpGTM	84	-4.9	-5.5
S'plys	45.5	-2.28	-4.7
HvasAd	142.7	-6.1	-4.1

GERMANY

	Jan 27	Jan 26	Jan 25	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
DAX	5061.18	4986.80	4982.45	6171.43	3896.08	6171.43	931.18

Day's high: 5108.94 Day's low: 5044.83

FRANKFURT TRADING ACTIVITY

Volume : 11,188,999

ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Day's change
IG Farben	1,970,000	2.5	+0.2
Combz	985,000	101.4	+0.2
Dt Bank. dm	650,000	127.85	+0.05
Bayer	489,802	32.75	+0.8
Veba	434,483	52.6	+3.4
RWE St A	401,201	42.8	+5.3
Siemens	395,793	60.8	+2
Dt. Bank	372,408	48.5	+0.6
Dt Lufthansa	371,427	18.3	-0.3
DaimlerChry	347,531	90.2	+1.5

BIGGEST MOVERS

Wednesday	Close price	Day's change	Day's chge %
Ups			
RWE	42.8	+5.3	+14.1
RWE Pf	27.25	+2.1	+8.3
Veba	52.6	+3.4	+6.9
DEPFA	80.6	+4.35	+5.7
Downs			
AachMunRr	84	-5	-5.6
GEHE	52.9	-3	-5.4
Adidas	78.8	-4	-5.0
Dgussa	35.75	-1.85	-4.9

UK

	Jan 27	Jan 26	Jan 25	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
FTSE 100	5876.4	5865.7	5880.9	6179	4648.7	6179	986.9

Day's high: 5989.3. Day's low: 5859.5

LONDON TRADING ACTIVITY

Volume : 1,285,300,000

ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Day's change
Shell	50,027,990	307⅛	-11½
LucasVarity	30,002,080	283½	-2½
Tesco	29,357,240	181⅝	+4½
Vodafone	24,541,940	1182½	+23
Slebe	22,385,140	205½	+4½
Signet	20,294,300	38⅝	-½
Tomkins	18,857,460	205⅝	+3⅛
BP Amoco	18,422,850	841	-16
Br Steel	16,227,440	121	+7
Reed Intl	15,657,870	571⅝	+41½

BIGGEST MOVERS

Wednesday	Close price	Day's change	Day's chge %
Ups			
Systems Int	18½	+8½	+77.3
Dragon Oil	28	+11½	+72.3
Cornwall Pkr	68	+12½	+23.4
Coats Viyella	35½	+5½	+19.5
Pyss	124½	+20	+19.1
600 Grp	67⅝	+10½	+18.4
Downs			
La Riche	410	-85	-17.2
Lonse	104	-16	-13.3

INDEX FUTURES

S&P 500	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	1264.40	1267.50	+2.00	1269.00	1261.00	87,929	390,568
Jun	-	1277.20	-	-	-	21	7,418

Nikkei 225	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	14400.0	14420.0	+70.0	14550.0	14390.0	22,745	193,335
Jun	14350.0	14380.0	+30.0	14390.0	14280.0	15	30,243

Open interest figures for previous day.

CAC-40 (200 x index)	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Jan	4107.0	4094.0	+28.0	4152.0	4090.0	101,506	75,723
Feb	4125.0	4104.0	+28.0	4157.5	4092.0	40,541	42,855

DAX	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Mar	5110.0	5053.5	+28.5	5139.0	5050.0	45,236	188,161
Jun	5132.0	5080.0	+98.0	5169.0	5108.5	2,180	38,085

OMX	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Jan	-	-	-	-	-	-	-
Feb	696.50	703.00	+8.00	710.00	698.50	14,738	180,816

EUREX	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Mar	7150.0	7030.0	-58.0	7170.0	7017.0	29,372	123,784
Jun	7087.0	6976.0	-44.0	7087.0	6977.0	903	3,786

WORLD MARKETS AT A GLANCE

Country	Index	Jan 27	Jan 26	Jan 25	1998/99 High	1998/99 Low	Yield	P/E
Argentina	General	15473.35	15365.38	15332.89	23485.50 23/3/98	12303.10 10/9/98	4.69	10.9

Sentiment boosted by firmer stocks in neighbouring Brazil.

Country	Index	Jan 27	Jan 26	Jan 25	1998/99 High	1998/99 Low	Yield	P/E
Australia	All Ordinaries	2851.4	(c)	2827.9	2897.30 7/1/99	2458.20 1/9/98	3.07	22.3
	All Mining	571.1	(c)	569.0	773.10 23/4/98	498.80 31/8/98		

Firm in spite of weaker bonds and A$. News Corp led gains and NAB jumped with results while resource sector languished.

Country	Index	Jan 27	Jan 26	Jan 25	1998/99 High	1998/99 Low	Yield	P/E
Austria	ATX Index	1059.66	1043.65	1013.43	1828.58 26/5/98	982.08 1/10/98		

Bullish broker forecasts and strong gains in cyclicals sent market higher for third straight session.

Country	Index	Jan 27	Jan 26	Jan 25	1998/99 High	1998/99 Low	Yield	P/E
India	BSE Sens.	3353.98	(c)	3308.15	4280.96 21/4/98	2764.16 20/10/98		
	Crisil 500	683.66	(c)	664.04	815.82 21/4/98	557.86 20/10/98	na	na

Strong demand from foreign funds lifted market but profit-taking by local speculators emerged late in session.

Country	Index	Jan 27	Jan 26	Jan 25	1998/99 High	1998/99 Low	Yield	P/E
Indonesia	Jakarta Comp.	410.25	398.15	392.47	554.18 2/2/98	256.83 21/9/98	2.49	19.7

Indosat rose, in talks with three foreign companies interested in buying stake, soared further 21 per cent.

Country	Index	Jan 27	Jan 26	Jan 25	1998/99 High	1998/99 Low	Yield	P/E
Ireland	ISEQ Overall	5139.03	5212.39	5254.79	5471.81 21/4/98	3765.11 8/10/98	1.87	19.5

Country	Index	Jan 27	Jan 26	Jan 25	1998/99 High	1998/99 Low	Yield	P/E
Portugal	PSI 20	11623.18	11758.49	11702.55	14289.80 22/4/98	8114.51 8/10/98		

Profit-taking in mobile phone operator Telecel contributed to market's weak tone.

Country	Index	Jan 27	Jan 26	Jan 25	1998/99 High	1998/99 Low	Yield	P/E
Russia	RTS	55.02	53.54	55.60	411.81 5/1/98	38.53 5/10/98	na	na

Shares fell as long distance carrier Rostelecom edged down after merger news and with power utilities off in thin trade.

Country	Index	Jan 27	Jan 26	Jan 25	1998/99 High	1998/99 Low	Yield	P/E
Singapore	SES All-S'pore	381.14	383.15	378.45	437.98 19/3/98	253.20 4/9/98	2.18	21.2
	Straits Times	1457.44	1417.14	1398.02	1689.75 19/3/98	805.04 4/9/98		

Strong gains recorded in Singapore Press Holdings and banking shares.

THE NASDAQ-AMEX MARKET GROUP

4 pm close January 27

AMEX

4 pm close January 27

EASDAQ

STOCK MARKETS

Earnings and Chinese pledge boost bourses

WORLD OVERVIEW

World markets edged forward cautiously as investors responded to positive corporate announcements and China's pledge to avoid devaluation, *writes Michael Peel*.

But strategists again warned against over-optimism, saying there was potential bad news ahead.

Most euro-zone markets finished slightly higher as investor interest focused on the foods sector and German utilities. Frankfurt ended 0.7 per cent higher as companies with nuclear power generating capacity prospered on news of the government's decision to backtrack on key elements of its plan to phase out nuclear power.

Foods companies across the continent surged after France's Danone posted strong 1998 results. Danone gained almost 9 per cent after it revealed improved profit margins.

The group's performance provided relief for the whole sector, under pressure last week after Nestlé of Switzerland announced worse-than-expected 1998 figures.

Danone declined from €232 at the close on January 20 to €209.90 at the end of trade on *Tuesday*.

Most Asian markets finished higher after the Chinese central bank governor pledged that the renminbi would not be devalued.

Hong Kong blue chips gained more than 2 per cent and surges were seen in the H-share index of mainland Chinese companies and the red-chip index *of companies* affiliated to mainland groups and state bodies.

But many observers were sceptical about China's *devaluation promise*. James Montier, global strategist at BT Alex Brown, thought the pledge was "hollow".

He warned that world markets might face further pressure from a fall in the value of the Brazilian Real. The currency steadied after plunging to a new low against the dollar on Tuesday, closing 0.5 centavos firmer at R$1.890.

Deutsche Bank thinks the Real will decline to about R$2.10 by the end of the year. It said: "The Real devaluation – particularly if it has much further to go – is likely to keep emerging market debt spreads under upward pressure and, at the margin, is negative for US equities and the US dollar."

Other strategists note that European bourses are still based on over-optimistic *earnings forecasts*. J.P. Morgan said it thought profits growth for the year would average between 0 per cent and 3 per cent, compared with consensus bottom-up forecasts of 11 per cent.

In the US, stocks gave back early gains at midsession although several high-tech groups posted forecast-beating earnings data.

Dow weaker as internet stocks rally

AMERICAS

Blue chips lost ground in early trading although computer-related stocks were in demand, helped by a rally for internet shares, *writes John Labate in New York*.

The Dow Jones Industrial Average was down 36.56 to 9,288.02 by early afternoon while the broader Standard & Poor's 500 index was showing ahead, up less than a point at 1,252.60.

"The market's had a tremendous run-up in the last two days," said Dan Mathisson, head stock trader at D.E. Shaw Securities. "The selling pressure is within the realm of normal profit-taking."

Weaker levels in the Dow came amid the release of a series of earnings reports. Walt Disney shares lost $⅝ at $33⅞ after the company's earnings fell short of investor expectations. Philip Morris also turned lower, falling $1⅜ to $47⅞ after the company reported results and warned that its Kraft foods unit would be forced to cut 600 jobs.

But DuPont gained $1⅛ to $55⅛ after its earnings came in slightly above consensus expectations. Johnson & Johnson, another Dow member stock, rose $1⅞ to $84⅛ after Prudential Securities raised its rating to "accumulate" from "hold".

Bookseller *Borders Group* plunged $3¼ or more than 15 per cent to $17¼ after it warned that earnings in its fourth quarter would be below expectations.

The Nasdaq composite, *weighted in high-tech*, shares gained 7.19 to 2,440.60, boosted by stronger software and internet shares. Microsoft rose $1¾ to $173⅛ while Computer Associates climbed $1⅛ to $49⅛.

Internet stocks soared, with online auction company eBay up $90¾ or 40 per cent to $311 and Amazon.com climbing $17⅞ to $133 a day after both companies *reported quarterly* results.

The internet index of the American Stock Exchange gained nearly 3 per cent to 765.25. America Online gained $9¾ to $163 ahead of its earnings report due out after market close.

Banking shares were mostly lower, led by First Union, off $5¾ or more than 9 per cent to $51⅛ after analysts at Lehman Brothers and PaineWebber downgraded the shares.

Small company shares weakened, sending the Russell 2000 index down 1.58 to 433.75.

TORONTO was little changed in early trading with investors mostly taking their cue from Wall Street.

By the noon calculation the 300 composite index was up 18.35 at 6,681.80.

A strong surge for telecoms giant BCE, where investors eagerly awaited an earnings statement, provided the benchmark with the *bulk of its underpinning*.

BCE gained C$1.20 or 2 per cent to C$65.60 in busy trading. ATI Technologies was the most active stock of the *morning, adding C$2 or 8.6* per cent at C$25.85 in volume of 6.8m shares.

Metals group Inco fell 35 cents to C$16.30 while golds leader Barrick shed 70 cents at C$27.80.

Banks were *mixed*. *Royal* Bank of Canada dipped 20 cents to C$76.50 while Bank of Montreal added 70 cents at C$64.85.

Ban delay spurs Frankfurt

EUROPE

The German government's decision to delay a proposed ban on reprocessing nuclear waste sent shares in some utility companies soaring in *FRANKFURT*.

RWE rocketed €4.50 or 11.8 per cent to €42.60, Veba climbed €2.95 to €52.90 and Viag was €1 higher at €452.

Gerhard Schröder, German chancellor, said late on Tuesday that the ban, originally due to start next year, would be delayed because Germany did not have sufficient alternative waste storage capacity. The renewed strength in the utilities helped to provide support to the Xetra Dax, which closed 37.02 higher at 5,038.21.

Retailer Karstadt shot up €23 or €370, *erasing some of* the losses suffered when the market sagged earlier in the month.

Degussa, the chemicals and metals group, gave up €1.25 to €36.40 as it continued to be punished for lower-than-expected-quarterly earnings, disclosed on Monday.

PARIS ended just above its session-low, finishing up 26.82 at 4,093.10 after touching 4,149.70 in early trading.

Foods group Danone was the day's hot stock, going limit-up at one stage and *closing with a gain of 8.9* per cent or €18.60 at €228.50 following strong results, which helped lift the clouds that descended on the sector last week *when Swiss rival Nestlé unexpectedly warned of* slack sales and shrinking operating margins.

Sentiment was also boosted when Goldman Sachs added Danone to its *European recommended list* and lifted its price target by 25 per cent to €265.

STMicroelectronics surged €3.70 to €85.10 after shares in the Franco-Italian chips group were upgraded by two *heavyweight brokers*.

Goldman Sachs moved to "market outperform" on the shares, lifted its target price to €105 and nudged up earnings estimates for good measure. Morgan Stanley raised its target price to €112.

Goldman Sachs also got behind TV group TF1, which rose €10 to €165 after the broker upgraded to "market outperform" and stepped up its target price to €180.

Building materials shares were also firm in the wake of strong housing starts for December. Lafarge rose €1.60 to €75 and Bouygues added €10 at €165. Saint Gobain, which puts out 1998 results today, jumped to €126.30 before settling €3 lower at €118.50.

Weak features included Elf Aquitaine, down €2.85 at €93.15 for a two-day fall of 7 per cent, and France Telecom, €2.10 weaker at €79.40.

AMSTERDAM gave up early gains to close with the AEX index modestly ahead at 531.69, up 5.05.

Media group Elsevier jumped 55 cents to €13.90, in a brisk 19.5m shares traded, on rumours that the media group's search for a new chief executive was about to *come to an end* with an announcement before the end of the week.

Burhmann continued to climb, adding 70 cents at €14.50. The shares in the office supplies group, at one *time threatened* with relegation from the AEX index, are to retain their position in the Dutch benchmark.

Unilever rallied €2.55 to €67.50 in the wake of upbeat earnings figures from Danone, *its French foods rival*.

HELSINKI was a strong performer as Nokia powered higher before 1998 results on Friday and as forestries surged on hopes that internal restructuring could help profitability.

Stora Enso, the world's largest paper producer, soared 40 cents or 5.9 per cent to €7.20. The company, formed by last year's merger of Swedish Stora and Finland's Enso, said new calculations suggested synergies should provide 40 per cent higher savings than earlier thought. The optimism rubbed off on UPM-Kymmene, €1.80 higher at €24, and Metsa-Serla, which gained 9 cents at €8.12.

Analysts noted that 1999 forest industry earnings were expected to fall, compared with last year's results, *although consolidation in the sector and* restructuring within companies could help profitability.

A strong showing in Nokia helped push the Hex index above the 6,000 level. Nokia added €2.70 to €125.20 and the index closed 154.85 or 2.6 per cent higher at 6,128.19.

However, the news was not all good. Rasio extended Tuesday's 20 per cent plunge with another fall of 50 cents, or 6.6 per cent, to €7.10 as news that Benecol, its anti-cholesterol food ingredient, would be launched in the US as a conventional food and not as a dietary supplement hit the headlines.

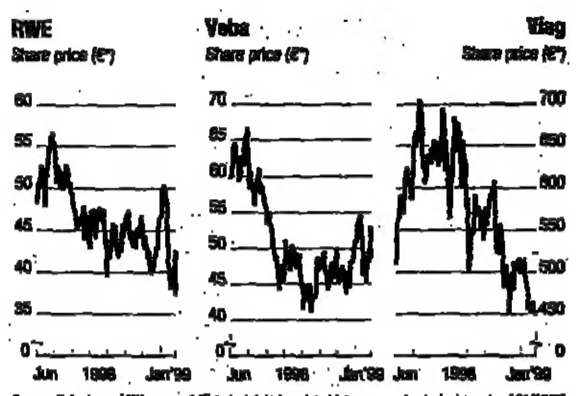
Energy group Fortum rebounded after losses over the previous six sessions to all-time lows after Morgan Stanley started the share as a "strong buy". The stock put on 14 cents to €4.59.

ZURICH pulled back in line with Wall Street and the SMI index registered a loss of 44.4 at 7,030.2.

Banks derived some strength from the easing of financial tensions in South America and Asia. UBS turned back from a high of SFr439 to close SFr1 easier at SFr429.50 as the bank said interim chairman Alex Krauer would remain as chairman until 2002.

At the same time, Goldman Sachs reiterated a recommended list rating for the bank after this week's investors' conference at which management said it was reducing riskier activities.

Written and edited by Michael Morgan, Jeffrey Brown, Michael Peel and Peter Hall



Currency fears threaten São Paulo's recovery

SAO PAULO, up more than 15 per cent over the past two *days, opened in uncertain* mood as currency concerns threatened to get the better of the recent buying spree.

The Real was again trading in the region of R$1.90 to the dollar at lunchtime yesterday. *Before the mid-*January devaluation and free float for the currency it stood at R$1.22.

At midsession, the market was little changed with the benchmark Bovespa index up 64 at 7,710 in thin trading *volumes*.

MEXICO CITY edged up in early trading, helped by a solid start for the peso, which gained ground after the central bank confirmed plans for tight monetary policy *and said official* government inflationary targets were feasible.

The IPC index was 34.44 higher at 3,800.41 at midsession.

Inflation data lift Jo'burg

SOUTH AFRICA

Shares in Johannesburg pushed ahead strongly on *the back of positive inflation* data, which sparked hopes for an interest rate cut and put the banking sector into overdrive.

The all share index jumped 2 per cent to 5,709 after the banks index surged almost 4 per cent following producer price data that showed a *marked slowdown* for December.

Among individual bank shares, Stanbic rose 145 cents or 8.7 per cent to R18.20 in turnover of R15.1m.

Optimism on US fuels Tokyo rise

ASIA PACIFIC

Tokyo share prices rose for the third consecutive day yesterday, boosted by rising optimism about the US stock market and diminishing concerns about Latin America, *writes Gillian Tett in Tokyo*.

The Nikkei 225, the key indicator, closed at 14,450.06, 0.47 per cent up on the day. During the session the index rose above 14,500 several times, but could not sustain the gain.

The Nikkei 300 closed 0.54 per cent up at 222.31. The Tokyo Stock Price Index, covering all shares, closed at 1,115.37, up 0.49 per cent and the third consecutive daily rise.

Volume on the main section fell from 500m the previous day to 410m shares. Losers outnumbered gainers 559 *to 557, while 188 shares* were unchanged.

High technology blue chips performed relatively well, reflecting Wall Street's *strong performance*. Sony closed at Y8,060, Y24 higher, while Hitachi rose Y15 to Y785 and Softbank Y320 to Y2,505.

NTT rose for the seventh day in a row, closing at Y930,000, up Y14,000. Tyre manufacturers also benefited on the back of indications *that Michelin, the French* group, was considering expanding in Japan through acquisitions.

Carmakers posted mixed *results as the excitement* over Nissan's search for a foreign partner ebbed. Nissan fell Y18 to close at Y428, while Toyota gained Y65 to Y2,985 *and Honda* rose Y50 to Y4,210.

SEOUL rallied strongly on talk of interest rate cuts. The composite index, off 14.5 per cent in four days, jumped 33.97 or 6.4 per cent to 565.20 in improving volume.

Blue chips pushed higher on a broad front in spite of a denial from the central bank that it planned to ease monetary policy.

Korea Electric rose *Won2,600 or 8.4 per cent to* Won33,500 and Samsung Electronics gained Won5,200 or 6 per cent to Won91,300. The banks sector index advanced 13.7 per cent.

JAKARTA continued to bound ahead, propelled by a second straight 20 per cent surge in Indocement.

The composite index closed 12.1 or 3 per cent higher at 410.25, with investors encouraged by regional *gains, the overnight rally on* Wall Street and diminishing fears about a possible devaluation of China's renminbi.

Indocement, 20.2 per cent *higher on Tuesday, climbed* another Rp650 or 20.8 per cent to Rp3,775 in further response to the news that the company was in talks *with three foreign cement* companies interested in buying a strategic stake.

Last year, Mexico's Cemex paid $1.38 a share for a 16 per cent stake in state-owned Semen Gresik, double the market share price at the time.

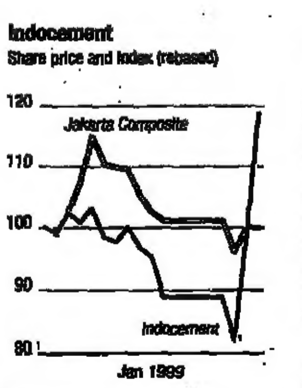
SINGAPORE moved higher for the second day running to make good some three percentage points of last week's 5.5 per cent net loss. Although volume *stayed weak, the Straits* Times index added 40.30 or 2.8 per cent at 1,457.44.

Singapore Press rose S$1 or 5.5 per cent to S$19.20 on speculation that the group was set to repeat last year's *cash distribution to share-*holders. SembCorp, which is about to *list its internet* service provider in New York, gained 14 cents or 6.2 per cent to S$2.39.

BOMBAY posted smart *gains, with the BSE-30 index* touching a high of 3,400.07 on heavy fund buying, though prices came off towards the close on profit-*booking. The index ended* 44.83 up at 3,353.98.

Among the large-cap stocks, Tata Iron and Steel gained Rs8.50 to Rs117.60, Larsen & Toubro Rs9.90 to Rs198 and BPL Rs14.10 to Rs220.30.

Software shares were also higher, with Wipro rising Rs276.50 to Rs4,051 and Tata Infotech Rs100.75 to Rs1,850.



MARKET FOCUS

Neighbour casts shadow on HK

Beijing may be an *unobtrusive* ruler on the streets of Hong Kong, but the ties are writ large on the territory's stock market.

In recent months share prices have dipped and dived on edicts from across the border: *the October* closure of Guangdong International Trust & Investment Corp, the investment agency that folded with $4.4bn worth of debts; *other bankruptcies* or defaults; renminbi devaluation jitters – and, yesterday, pledges not to devalue.

Yesterday's assurance by Chinese central bank governor Dai Xianglong spurred the benchmark *Hang Seng* index up 2.2 per cent. China plays took the biggest jumps, with the red-chip index up 4.9 per cent and the *H share* index 7.3 per cent.

Red chips, or mainland-backed *Hong Kong* companies, have taken some of the harshest beatings recently. The growing pile of unpaid debts at Chinese enterprises rattled investors, prompting lenders and shareholders to reduce their exposure.

Companies linked to Guangdong, *China's* wealthiest province and the one with closest ties to Hong Kong, have led the list of heavily indebted groups.

Guangdong Enterprises, one of Gitic's sister companies, *admitted* to $2.9bn of debts and called for a standstill arrangement *on* principal payments. Investors rapidly sold down the group's listed units.

This year, the red-chip index has fallen 20.6 per cent against a 3 per cent decline *for the blue-chip Hang Seng* index and 18.3 per cent for the index tracking H shares, the stock of mainland former state-owned enterprises.

However, the fallout from Gitic has also strayed into blue-chip *territory*. *Hong* Kong banks have been keen lenders to Chinese entities, including Gitic, and the reporting season beginning next month is expected to be marked with big provisions and stagnant loan growth.

Anil Daswani, head of country research at Salomon Smith Barney, estimates provisions could total HK$32.2bn, assuming 100 per cent provisions against Gitic, 95 per cent against exposure to other Itics, and 33 per cent against other Chinese concerns. This could send some banks into losses in the second half of 1998.

But China is not the only cloud on the Hong Kong stock market. The devaluation of Brazil's Real prompted Asia's financial *markets to revisit* the possibility of another round of devaluations – and the possible dismantling of the region's last main fully convertible fixed exchange rate, the Hong Kong dollar.

A mix of genuine hedging by Hong Kong corporates and banks, and some speculative activity, helped push interbank interest rates higher in the past two weeks; and this in turn rattled the stock market.

The economic fundamentals also remain uninspiring: Hong Kong's economy shrunk an estimated 5 per cent last year, and is forecast by some economists to contract further this year. Interest rate cuts in the past two months have done little to stimulate demand.

Louise Lucas